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New FDIC limits could rescue banks, cost consumers, pros say

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Increasing protection on bank deposits would help banks perhaps more than consumers, and it could actually cost consumers more in bank fees.

The proposal to raise protection under the Federal Deposit Insurance Corp. from \$100,000 to \$250,000 per account holder through 2009 was included in the Senate version of the \$700 billion financial industry bailout bill.

Certified financial planner Ralph Lunt of Avon said the proposal would have been much better a few months ago, before the failure of IndyMac, a major California bank, in mid-July.

Since then, he said, a lot of people who have more than \$100,000 and were nervous have already opened new bank accounts at various banks.

"Now, it's definitely a public relations maneuver," said Lunt, of Strategic Capital Advisors. "It's not like they're giving you anything you don't have already" by adding beneficiaries to accounts or having accounts at different banks.

For people who haven't yet shifted accounts, Lunt said, "it might save you a few bucks in gas and a little bit of time. That's it."

Consumer nervousness is actually helping banks like Ohio Commerce Bank in Beachwood, which just this week has seen \$4 million in new deposits from people moving money from other local banks. That's nearly 10 percent of Ohio Commerce's total deposits.

Raising the FDIC limits "will help banks that are struggling to keep deposits," said Dell Duncan, president and chief executive of Ohio Commerce.

The move would also serve as a "convenience to consumers," Duncan said, if they can leave more money at a couple of banks and not open multiple accounts around town.

Raising FDIC coverage, however, will increase premiums paid by banks even more. FDIC Chairman Sheila Bair last week had already promised premiums would increase to bolster the \$45 billion deposit insurance fund. Paying even higher premiums for the increased coverage could cause banks to raise fees to customers or reduce expenses.

The \$250,000 cap could help preserve the FDIC fund. If people don't pull money out of various banks, that could prevent bank failures that would force the FDIC to dip into its fund.

Third Federal Savings spokeswoman Monica Martines said the higher insurance premiums "are well worth it if we can just get people to relax and not be so worried about their money. . . Right now, there are so many irrational fears."

Certified financial planner Scott Snow of Westlake said people could make a run on a bank quickly from a computer. "There wouldn't be any lines."

Snow said his firm will take advantage of higher limits right away by opening \$250,000 CDs for clients instead of just several \$100,000 ones.

The \$100,000 limit was arcane, he said, because it wasn't indexed to inflation. "This should have been done a long time ago."