

How Do Recent Failures, Mergers, and Takeovers Affect Me?

Questions and Answers from the American Bankers Association

The recent bankruptcy of Lehman Bros., along with other mergers and takeovers involving banks, may have you confused or worried. To help you better understand what these changes mean and how they may affect you, the American Bankers Association has developed a series of Q&A:

Q Where is the safest place for my money right now?

A The safest place for your money is in the bank. It's earning interest, it's FDIC-insured and it's accessible.

Q How will the recent failure of Lehman Bros. affect me?

A Unless you invested money with Lehman, you will not be affected. And if you did, Barclays Capital has announced that it plans to acquire the U.S. brokerage arm of Lehman, so all customers should be protected. Even if Barclays had not agreed to acquire Lehman Bros. brokerage, customers would still get back all the securities that are registered in their name and further protection would have been provided by the Securities Investor Protection Corp. which could have provided additional funds to satisfy each customer's claims up to \$500,000. Of course, there will be economic factors that will affect us all, but Lehman is an investment bank, not a commercial bank.

Q What's the difference between an investment bank like Lehman and my bank?

A Investment banks operate differently from commercial banks and thrift institutions. Their primary purpose is to facilitate the sale of stocks and bonds. These Wall Street firms operate as advisers and agents for companies that want to raise capital, often by issuing more stock or other securities.

Commercial banks and thrift institutions take deposits for checking and savings accounts from consumers and businesses. These deposits are insured by the FDIC for up to \$100,000 per account and up to \$250,000 for retirement accounts. These banks lend this money to consumers and companies for autos, homes, business equipment, etc.

Q Should I be worried about the health of my bank?

A With 98 percent of nation's 8,500 banks considered "well capitalized" – the highest designation possible – the possibility of your bank being taken over by the FDIC is extremely remote. And if it did happen, you would continue to have uninterrupted access to your FDIC insured deposits.

Q How do I know I won't lose money?

A Customers' bank deposits are protected. Not one penny of insured savings has ever been lost by a customer of a federally insured bank. Deposits are insured by the FDIC for up to \$100,000 per depositor per insured bank and up to \$250,000 for retirement accounts. If you need more coverage, your banker can explain your coverage limits and give you options to ensure that all of your deposits are insured.

Q What about lists that predict the next bank failures?

A The only list that matters is the one from the FDIC, which has a more thorough and complete picture of a bank's safety and soundness. It's important that this list be kept confidential, because, on average, the vast majority (87 percent) of banks on this list come back to healthy status.

Q Will I still be able to get a mortgage, credit card or other loan?

A People with a good credit history will continue to have access to mortgage, credit card and other types of loans. Appropriately, most banks are taking steps to limit risk in the current economic environment, so they have tightened lending standards. That's why it's more important than ever to monitor your credit report and keep your credit score in the "good" to "excellent" range.

Q How does the recent takeover of Fannie and Freddie affect bank customers?

A If you already have a mortgage, nothing will change. If you are thinking of buying a home or refinancing a mortgage, the government takeover will help stabilize rates. With explicit government backing, Fannie and Freddie can continue to buy mortgages, hold them in portfolio or sell them into a functioning mortgage market. Mortgage rates nationally have already come down, making it easier for homebuyers to qualify and for homeowners to refinance high-priced loans.

For more information on your insured deposits, check out the FDIC's Web site.

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