



HARRY DENNIS III
BANKING

Protect your assets

Be careful how you bank during economic crisis

As you probably know, in October, Congress approved the FDIC coverage increase on IRA, CD and business accounts from \$100,000 to \$250,000.

This will extend until the end of 2009. So far, boring information, right? Well, TEC/Vistage speaker Edmond Freiermuth sparks up the issue with the following observations:

Your business has more than \$250,000 in a single FDIC-insured bank.

1. If the excess is due to borrowed funds, pay this amount down so that the depository account balance is less than \$250,000.
2. You can transfer excess funds to other banks, for example, by using Certificate of Deposit Account Registry Service (CDARS). They currently yield about 2 percent, and you lock the deposit in for four weeks.

You, as an individual have more than \$250,000 in an FDIC-insured bank.

The easiest process is to declare different ownership categories to your accounts. For example, a husband and wife can get up to \$1.5 million insured by specifying the following types of accounts:

1. Husband single account: \$250,000.
2. Wife single account: \$250,000.
3. Husband/wife joint account: \$500,000.
4. Husband's revocable trust account for wife: \$250,000.
5. Wife's revocable trust account for husband: \$250,000.

What happens if my bank goes on the FDIC's watch list?

About 90 U.S. banks are on the list. While that certainly tarnishes a bank's reputation, it does not imply impending failure. It means the bank's ability to grow will be restricted without an infusion of additional capital. As a borrower, it could mean that your

“If you suspect that because of your due diligence work that a takeover is possible, it's best that you begin shopping for a new financing source sooner rather than later.”

credit line could be reduced, the interest rate increased or the ability to get a term loan reduced.

How can a business owner perform due diligence on a bank?

The common stock of most commercial banks is traded publicly. Banks also must adhere to periodic financial reporting requirements with the U.S. Security and Exchange Commission. All banks must also file periodic “call reports” with bank regulators. Finally, you can ask your loan officer for a published financial statement.

What are the major signs a bank may be in trouble?

The biggest clue is when regulators issue a “cease and desist order” to a bank. Other signals are:

1. A major decline in stock value.
2. High executive turnover.
3. Recent unexplained changes in the management of your account.

4. A lowered capitalization ranking by regulators.

What occurs if your bank lender is taken over by the FDIC?

The FDIC will attempt to find a buyer for the full value of all bank assets. If this is not possible, it will try to sell liquid assets such as government securities, and then aggregated loans to another lender. Be aware of the following:

1. There may be changes to the terms of your loan.
2. It's possible that your loan could be called.

3. If you are leveraged 3:1 or more, finding a new lender in these economic times might be difficult.

Regardless, if you suspect that because of your due diligence work that a takeover is possible, it's best that you begin shopping for a new financing source sooner rather than later.

If the FDIC takes over your bank, how long must you wait to get access to your funds?

Assuming you've followed the \$250,000 guidelines, you should get access to your funds within a few days. If your account is above the \$250,000 limit, the situation becomes more problematic and there are no guarantees.

The bottom line is that the FDIC will evaluate just how under-performing the bank's assets are. It will also assess liquidation alternatives. After the FDIC estimates losses, amounts in excess of insured limits are typically paid out by some percentage on the dollar within a few days.

What is the best estimate of continued turmoil in the credit and equity markets?

Our TEC resource specialists generally concur that, even with the bailout, a restoration of lending sanity will take at least 18 to 24 months. Financial instability of the global marketplace compounds the problem.

They also warn against businesses falling prey to schemes designed to insulate them from the type of failure discussed in this article such as drawing down your credit line to the max and putting the proceeds in government or other short-term investments.

I guess we need to remember that our banks, too, are also businesses and subject to the same market conditions we're facing. Until next month, manage your credit and investments wisely within your working capital game plan. ■

Harry S. Dennis III is the chairman and CEO of TEC Wisconsin/Michigan. TEC is a professional development group for CEOs, presidents and business owners. He can be reached at (262) 821-3340.