ARE MY TRUST, FIDUCIARY AND CUSTODY ASSETS SAFE?

Understanding the difference between account types.

It's easy to get confused—and important to know the difference—between assets you have in deposit accounts, a trust, fiduciary or custodial account, and if they are safe. Here are some simple answers:

DEPOSIT ACCOUNTS

Assets you have in a deposit account become assets of the bank. This creates a debtor-creditor relationship between the bank and you (the depositor), and a contractual promise is made by the bank to repay the amount on deposit, plus interest (if applicable). The assets in such deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per FDIC-insured bank, per ownership category.

What happens if the bank fails?

Since deposit account assets become assets of the bank, you (the depositor) become a creditor if the bank fails and the bank will owe those assets to you. Plus, the FDIC insures each depositor for up to $250,000 per FDIC-insured bank, per ownership category. So as long as your deposit account assets do not exceed that threshold, per bank, you will get those assets back.

TRUST, FIDUCIARY AND CUSTODIAL ACCOUNTS

Assets you have in a trust, fiduciary or custodial account do NOT become assets of the bank. With a trust or fiduciary account, the bank acts as trustee or fiduciary to the account, providing investment management, investment advice and other services. With a custodial account, the bank's role is to keep the assets safe, collect dividends and interest and provide other similar services. In all cases, account ownership remains vested in the individuals or entities for whose benefit the bank is acting as trustee, fiduciary or custodian.

What happens if the bank fails?

Since assets held in a trust, fiduciary or custodial account do NOT become assets of the bank, none of the property is subjected to the claims of the bank's creditors. Therefore, a bank failure will have no adverse effect on such accounts and those assets will remain the property of the account owner(s).

However, the FDIC will try to transfer the administration of those accounts to a successor trust institution as quickly as possible. If successful, the beneficiaries would need to either accept this new arrangement or make alternative arrangements. If the transfer is not successful, the FDIC will notify all affected beneficiaries to reclaim their property or designate an alternative institution to transfer their assets.

Therefore, the safety of trust, fiduciary and custodial assets is not dependent upon whether the bank has assets greater than its liabilities. Property held in these accounts belongs to the owner(s) of the accounts and would be unaffected by bank failure.

If you have any questions or concerns about your accounts, give us a call. We're always here to help.

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