

The Weekly Scenario: New FDIC Rule to Simplify Banking for Trusts

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On January 21, 2022, the Federal Deposit Insurance Corporation ("FDIC") approved a new rule (going into effect on April 1, 2024) that will simplify the agency's deposit insurance coverage regulations (after you can through 20 pages of rules!). For clients with deposits in Revocable and Irrevocable Trust accounts, the FDIC is merging the two deposit insurance categories for revocable and irrevocable trusts and applying simpler coverage rule.

The point of the new rules is that they will create a consistent and (perhaps) easier process for bankers and those making deposits.

Basically, the new rule is the insuring up to \$250,000 for each trust beneficiary (not to exceed five beneficiaries), regardless of whether the trust is revocable or irrevocable, and regardless of any contingencies, the allocation of distributions among beneficiaries; and the maximum deposit insurance coverage of \$1,250,000 per insured depository institution for trust deposits.

As an example, you create a trust for your son and his three children. The Trustee can make distributions to any of the trust beneficiaries. If this trust deposits \$1,000,000 in Bank 1 and \$1,000,000 in Bank 2, the deposits in both banks will be protected by FDIC insurance. By contrast, if this trust deposits \$1,500,000 in Bank 3, only \$1,000,000 (\$250,000 x 4 beneficiaries) of this account will be protected by FDIC insurance.

The FDIC does not expect most trust depositors to experience any change in coverage when the rule takes effect but will be giving a two-year lead time for banks and depositors to become familiar with the new regulation.