TEACHING TIPS

from the Federal Reserve Bank of Kansas City

Based on the
Fall 2008 TEN Magazine Article
"Is your bank account safe?"

Reading the Article with Students

The president of the Federal Reserve Bank of Kansas City, Thomas Hoenig, focuses on the recent banking crisis and its effects on consumer banking transactions. In the President's Message, Hoenig discusses what happens when a bank fails and how the Federal Deposit Insurance Corporation (FDIC) steps in following a bank's closing. He details the process of bank purchase-and-assumption agreements, and highlights FDIC regulations in place to guard consumer accounts. (Some of the dollar limits of these rules have been raised since the article's publication; the current limits can be found at *http://www.fdic.gov/news/*.) Hoenig reassures consumers that their money is well-protected in U.S. banks.

Suggested use: Read and discuss the article in class, using the direct discussion questions that follow. Students interested in further research on this topic could work on the extension activities and share their findings with the class. The article is available at: *http://www.kansascityfed.org/publicat/TEN/PDF/Fall2008/TenComplete.pdf.*

Direct Discussion Questions

1. How does the current banking crisis mirror events that happened in banking history between 1980 and 1994?
2. According to Hoenig, a little over 1% of all banks and savings institutions are currently in a problem situation. Do you think this is a concern to all depositors? Explain your reasoning.
3. What are the factors that determine if a bank has failed?
4. Explain the FDIC's role in the steps following a bank's failure and closing. What is its responsibility to depositors? What is its responsibility to banks?
5. Why would a stronger bank that acquires a failed bank want to include all deposits under a purchase-and-assumption transaction?
6. Do you think that the media coverage of banking-related issues exaggerates the problem of bank failures? Why or why not? What should the media's role be in covering banking and financial news?
7. On October 3, 2008, the FDIC raised the insurance coverage limit for all deposits to $250,000 per account owner. Do you think this move will relieve fears of deposit losses and future bank panics? Why or why not?

KEY PERSONAL FINANCE & ECONOMIC CONCEPTS

Review the meanings of some of the personal finance and economic concepts contained in this article.

ASSET: *Something of monetary value owned by an individual or organization.*

CAPITAL: *Resources and goods made and used to produce goods and services. Examples include buildings, machinery, tools and equipment. In the context of credit transactions, capital is one of the "three Cs of credit." It is an indicator of how creditworthy a prospective borrower is likely to be as determined by the borrower's current financial assets and net worth.*

FDIC (Federal Deposit Insurance Corporation): *A federal agency that guarantees depositors' savings up to $250,000 per account in most commercial banks, savings banks and savings associations.*

Continued on next page

Extension Activities

1. Look at the FDIC website link: http://www.fdic.gov/edie/calculator.html. This ink shows the FDIC's Electronic Deposit Insurance Estimator, created for consumers to use in calculating the insurance coverage on their deposit money.

   Try out the estimation feature by putting the following information into the calculator:

   - Institution: Bucks Bank
   - Account nickname: My $$
   - Account balance: $275,000.00
   - Ownership Type: Single, no beneficiaries
   - Owner: your name

   Read your report to check the information before calculating. Then calculate to see what amount of your deposit dollars is insured and what amount is not insured.

   Follow the steps a second time to do another estimation. Include your parent as a joint owner on your account this time. Keep all other answers the same, and calculate.

   Do the calculations one more time, as an IRA account, keeping all other answers the same.

   Answer the following questions:

   a. What were the insured and uninsured amounts for a single, no beneficiaries account?
   b. What were the insured and uninsured amounts for a joint account?
   c. What were the insured and uninsured amounts for an IRA account?
   d. What are the advantages to the joint account?

2. Bank regulators give ratings on the safety and soundness of banks. Learn how the Federal Reserve Bank regulates and supervises the soundness of banks by going to: http://federalreserve.gov/pf/pdf/pf_5.pdf

   Bank examiners use the acronym "CAMELS" to judge factors related to proper bank functioning. List these factors and explain their importance to bank safety.

3. Explore the history of bank failures by going to: http://mjperry.blogspot.com/2008/09/were-still-long-way-from-real-banking.html

   Explain why the author feels that the current banking crisis is not as threatening as the 1980-1994 savings and loan crisis.

Links and Resources

Federal Reserve Bank of Kansas City:
TEN Magazine - Fall 2008
President's Message:
Is your bank account safe?
http://www.kansascityfed.org/publicat/TEN/PDF/Fall2008/TenComplete.pdf

Federal Deposit Insurance Corporation:
FDIC news
www.fdic.gov/news/

Electronic Deposit Insurance Estimator
www.fdic.gov/edie/

Federal Reserve Education
FRS: Purposes and Functions
http://federalreserve.gov/pf/pdf/pf_5.pdf

Professor Mark. J. Perry
Economics and Finance
University of Michigan
Carpe Diem-We're still a long way from a real banking crisis
http://mjperry.blogspot.com/2008/09/were-still-long-way-from-real-banking.html

Key Personal Finance & Economic Concepts continued

FEDERAL RESERVE: *The central bank of the United States. Its main function is controlling the money supply through monetary policy. The Federal Reserve System divides the country into 12 districts, each with its own Federal Reserve Bank.*

IRA (Individual Retirement Account): *An account in which individuals may set aside earned income in a tax-deferred savings plan for his or her retirement. There are two types of IRAs, traditional and Roth, each with its own qualifications and rules governing contributions and withdrawals.*

LIABILITY: *Legal responsibility to pay for damages and losses one has caused.*

LIQUIDATE: *To wind up the affairs of a company by identifying liabilities and selling off assets in order to make payments to creditors.*

REGULATION: *A rule or law used to control or direct behavior within an organization.*

For more economic concepts, definitions and lessons, check out Virtual Economics 3.0 from the National Council on Economic Education (online at www.councilforeconed.org).

Teaching Tips is a FREE resource from the Federal Reserve Bank of Kansas City. It is available on our web site at *www.kansascityfed.org.*

For more educational resources from the Federal Reserve Bank, contact Michele Wulff (*michele.wulff@kc.frb.org*).