

TEACHING TIPS

from the Federal Reserve Bank of Kansas City



BASED ON THE
FALL 2008 TEN MAGAZINE ARTICLE
"IS YOUR BANK ACCOUNT SAFE?"

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.

Reading the Article with Middle School Students

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>.

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 credit-worthy 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.*

1. Has there been a banking crisis in our history before the current bank failures? During what years did this crisis occur? Was this crisis smaller or larger than the current one?
2. What percent of all banks are on the "Problem List"? Should all depositors be worried about these banks failing?
3. What does it mean if a bank becomes "insolvent"? Who decides this issue?
4. Why is the Federal Deposit Insurance Corporation important to banks? Why is the FDIC important to depositors?
5. Why would a stronger bank that acquires a failed bank want to include all deposits under a purchase-and-assumption transaction?
6. After a bank closes, what does the FDIC do to help the bank reopen under a new name?
7. On October 3, 2008, the FDIC raised the insurance coverage limit for all deposits from \$100,000 to \$250,000 per account owner. This means that a depositor can recover up to \$250,000 of their account funds if their bank fails. Do you think this is a good idea? Why or why not?

Direct Discussion Questions

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1. Look at the FDIC website link: <http://www.fdic.gov/edie/calculator.html>. This link 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 type: Personal Account
- 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.

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 are the advantages to the joint account?
2. Explore bank failures during the Great Depression by going to: http://www.livinghistoryfarm.org/farminginthe30s/money_08.html. After reading the website information, answer these questions:
- a. How many banks failed during the 1930s?
 - b. How much money did those banks have in deposits?
 - c. What is a bank holiday? Which president declared a bank holiday during the Great Depression?
 - d. Were bank failures more serious during the Great Depression or now? Explain your reasoning.

Extension Activities

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).

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/

Links and Resources

Wessels Living History Farm
"Farming in the 1930s"

http://www.livinghistoryfarm.org/farminginthe30s/money_08.html

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).