

Government Bailout Creates Safe Deposit Concerns

The current financial chaos is uprooting every aspect of America's economic landscape. Not since "The Crash of 1929" has the entire populace been whipped into such a frenzy which, in certain instances, borders on panic in some financial sectors. One of the sectors is the banking and credit union industry. With the demise of financial giants such as Bear Stearnes and Lehman Brothers, the entire financial infrastructure appears to be nothing more than a glorified house of cards caught in a turbulent, economic windstorm.

Financial institutions traditionally offer checking accounts, savings accounts, home mortgages and, in many instances, safe deposit boxes which protect valuable, high dollar property. When the safety of an individual's financial base appears threatened, faith in the financial system is compromised, and "safer" alternatives are considered. One impulse is to convert all assets into cash, clean out safe deposit boxes, and remove everything from the financial institution. Sales of home safes and vaults have skyrocketed in recent months. Unfortunately, a home safe is probably not a wise alternative. Home safes are not that secure and experienced burglars can access these contents fairly easily. In spite of the present-day uncertainty, a financial institution's vault is still much more secure than a home safe.

It should also be noted that a failing financial institution will not give advance notice in the event that it closes and locks its doors. If a safe deposit box contains emergency cash, documents or other items that may be needed immediately in a crisis situation, a renter's safe deposit box may not be the wisest location to secure these valuables. They should be removed and secured elsewhere.

Above all, we should be acutely aware of the hordes of doomsayers who are now breeding panic and spouting flawed and incorrect financial advice on television and in newspaper and magazine articles. Each of us needs to assess our own individual financial institution, seek advice from reputable sources, and refuse to react to the sensationalism that currently abounds.

As a safe deposit specialist for over 39 years, our present financial situation and government bailout has brought forth the following questions and concerns from consumers, news reporters and numerous financial institutions.

Most Frequently Asked Consumer Questions

Question: What happens to my box contents if a financial institution is closed and goes out of business?

Answer: If anything happened to cause a financial institution to close, the consumer's box contents would be safe and accessible. Historically, when this situation occurs, another financial institution would purchase the deposits, loans, assets, facility and all rented safe deposit boxes. These new owners will welcome the opportunity to provide financial services to all existing depositors and box renters. In the very rare instances when there are no buyers, the regulators will close the facility and immediately post a notice on the front door with a contact person's name and phone number. The renters can call this individual to set up an appointment to redeem their box contents. The regulators will never seize these safe deposit valuables.

Question: If I close my deposit accounts, can I store my money in a safe deposit box? Is this action restricted by my lease agreement and are there any state or federal laws that would make this action illegal?

Answer: “Yes” you can store cash in your safe deposit box and “No” there are no state or federal laws that make this action illegal. If you seriously analyze this question, how many current box renters now have coin collections, silver dollars, two-dollar bills, gold coins and many other type of currency stored in their boxes? These box renters are not breaking any state or federal laws because there are no laws to break. Even if there were such a law, financial institutions could not enforce it because they have no knowledge of what renters store in these boxes.

Some lease agreements do restrict the storage of cash in a box, but others don’t. When answering consumer questions, financial institutions should review their safe deposit contract with the box renter. The renter should be very familiar with the language in this agreement. In some contracts, it may state that cash should never be stored in a box, but in many others, there is usually a clause that indemnifies the institution if cash is stored in the box and it is lost or destroyed.

The only regulation that approaches this situation comes from our friends at the Internal Revenue Service. The IRS has a federal regulation that states; “Consumer will not conceal cash from the United States government to avoid paying income tax on it.” Historically many safe deposit managers have interpreted this federal regulation to mean that consumers cannot store cash in their box. This is not what the regulation says.

Question: Does the increased \$250,000 FDIC and NCUA insurance coverage limit automatically raise the insured amount of my safe deposit box contents?

Answer: The substantial increase from \$100,000 to \$250,000 in FDIC and NCUA deposit insurance does not apply to safe deposit box contents. Renters should be aware that FDIC and NCUA have never insured valuables stored in a box. These box contents are not considered insured deposits under the law and federal law mandates that government agencies can only insure deposits maintained in a deposit account.

If renters are concerned about insurance protection, they should check with their own insurance agent for their options. Many insurance companies charge much lower insurance premiums if valuables are protected inside a financial institution’s safe deposit vault.

“No Insurance” signs and disclosures are also needed and currently being used nationwide. Displaying carefully worded lobby and desk signs, that clearly state; “No Insurance is Provided on Safe Deposit Box Contents” is strongly recommended. These signs provide consumers with correct information, clear up consumer’s biggest safe deposit misunderstanding and could protect your institution if a disaster or loss occurs.

Question: How important is it to assure that all officers and employees are trained to provide correct answers to a consumer’s safe deposit questions?

Answer: Employee training is the one of the most critical areas. Officers and employees having frequent contact with consumers must receive very thorough and continuous training. Make sure they can correctly answer all questions relating to safe deposit insurance, contract provisions and

facility closings. Having carefully worded safe deposit signs, disclosures, and question and answer brochures that address the most frequently asked safe deposit questions make this training much easier. When asked difficult questions, properly trained officers and employees can easily provide the correct safe deposit information to consumers.

In Conclusion

Financial institutions must be very careful and conscientious when they provide safe deposit services to consumers. Strict adherence to employee training must be followed to the letter. Without proper training, disclosure and compliance, you could expose yourself to unlimited liability. If you need assistance simply contact Dave McGuinn at 713-937-9929 or visit www.sdspec.com to obtain valuable safe deposit information. You must review your internal procedures, compliance issues and disclosure documents now . . . **not after a safe deposit employee provides incorrect consumer information.**