

Reader's View
(Portions of this article are also approved for publication)
By Dawn Justice, President and CEO, Idaho Bankers Association
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Who Did What and Why You Should Care

The news today is filled with the unprecedented financial crisis. To put into context the events of the past few weeks, it's essential to recognize an important distinction: Wall Street investment "banks" and traditional depository "banks" are very different creatures. The primary purpose of Wall Street investment banks is to facilitate the sale of stocks and bonds and act as agents for companies that want to raise capital. In their investment bank capacity, there is no Federal Deposit Insurance Corporation (FDIC) coverage. These were firms like Bear Stearns, Lehman Brothers and Merrill Lynch.

Commercial banks and thrifts (your local bank) hold deposits for checking and savings accounts and also lend money. These deposits are now insured by the FDIC for up to \$250,000 per account, including retirement accounts.

Commercial banks and thrifts were not the drivers of the ill-advised investments of Wall Street brokerage and investment firms. Nor were they the drivers of the housing market crisis - largely created by unregulated lenders. Idaho banks had relatively limited or no participation in the sub-prime market and have therefore been saved from the challenges which forced the recent acquisitions of Washington Mutual and Wachovia.

Idahoans should primarily care about protecting their savings, and that's why FDIC-insured commercial banks or thrifts are the safest place to hold your cash. Since the start of the FDIC in 1933, no depositor has ever lost a penny of insured deposits.

If an insured bank fails, FDIC insurance will cover the deposits, dollar for dollar, including principal and any accrued interest, up to the insurance limit of \$250,000 per depositor, per insured bank, including money market deposit accounts and certificates of deposit (CDs).

If you have questions about your accounts, talk to your banker. You can also go to the FDIC website: <http://www.fdic.gov/deposit/deposits/deposit/faqs/index.html>. Or, call the FDIC direct at (877) ASK FDIC. There are few things one can count on in life, but FDIC insurance is one of them.

A second reason for caring is how the "credit crunch" would impact Idaho. Businesses of all sizes rely on short-term credit to fund their daily operations. These short-term loans are used to make payroll, build inventory and pay suppliers. So, global capital markets and short-term lending may seem a world away from Idaho, but no one is immune.

The recent passage of the Emergency Economic Stabilization Act of 2008 by Congress will hopefully free-up the financial markets. It was designed to restart the economic engine by allowing for the orderly liquidation of the problem assets that are blocking the credit “fuel lines.”

The bill is extremely complex, and leaves unanswered questions about the implementation, costs, taxpayer exposure and outcomes as the plan sends us into un-chartered territory. In that respect there are risks – but it’s a start toward restoring confidence and stability to the markets.

Idaho’s Congressional delegation did not have an enviable task in voting on this extraordinary piece of legislation as there were strong and defensible arguments in support and opposition. They should be congratulated for their efforts in trying to determine the right course for Idaho and the entire country.

Today, Idaho banks are making loans – we are fortunate compared to other parts of the country where the crisis is taking its toll. Other good news is that Idahoans are bringing their cash back into the state from risky investments and are depositing their money in Idaho banks for safe-keeping.

Having a safe and sound banking system to rely on is critical and demonstrates the important role Idaho banks play in our local communities. They are a source of stability and growth.

The Idaho Bankers Association would be happy to provide consumers with additional information or answer any questions. Call (208) 342-8282.