



THE TOUGH CUSTOMER- Tough times: Keeping your head... and your \$\$

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The recent news headlines warning of global financial catastrophe have been frightening, but also, in some ways, so incredible as to bear no relationship to our actual daily lives here in Charlottesville.

What does it mean when Lehman Brothers, a 158-year-old Wall Street investment bank, goes bankrupt? What about the eye-popping sums that the U.S. government has committed, and proposes to commit, to save banks: \$25 billion for Bear Stearns, \$200 billion for Fannie Mae and Freddie Mac, and \$85 billion to bail out insurance company AIG, not to mention the \$700 billion blank check the government is seeking to purchase bad assets from the books of banks to avert what has been described as the worst financial crisis since the Great Depression.

Add it all up, and that is close to one trillion dollars.

Or expressed another way, \$1,000,000,000,000.00.

Well, it sure puts my Visa bill, which stretches my monthly budget, in a different light. (Maybe if Congress approves this latest bailout plan, Secretary of the Treasury Hank Paulson can just slide me a few million. It probably wouldn't even register as anything more than a rounding error.)

For individuals, the fact is that the stock market's recent swings are causing nerve-racking plunges in the values of portfolios, especially retirement accounts. Declining home values, meanwhile, have left many people trapped in adjustable rate mortgages that have become, or will shortly become, too expensive. And a credit crunch has made all kinds of loans, whether for cars or credit cards, harder to find and more expensive when they are found.

Charlottesville financial advisor Stewart Darrell of local portfolio management firm Darrell & King, says that while the problem is a serious one for banks and markets, individuals should stay calm and "take some comfort that the system is working."

Darrell explains that the surfeit of money available to borrowers in recent years resulted in excess liquidity— basically, bad loans-- that is now being "purged" from the financial system.

"Don't let the headlines dictate your investment strategy," Darrell says, adding that he has received a steady stream of calls from his clients, but no rush for the exits once he explains the situation. "That's one of the advantages of working with an advisor," he says, "You can call and get some explanation."

In addition to investments, a second, related issue is the safety of bank accounts. Nine banks have failed in the U.S. this year, and the FDIC, the agency that insures deposits, is keeping a close eye on more than one hundred others that are at risk of doing so.

According to John McCune, Research Director at SNL Financial, a local company that provides information about banks to Wall Street, the risk of a bank failure in this area is much less compared to other areas of the country, like parts of California and Nevada where the housing bubble inflated bigger and popped louder.

McCune says that while there is concern that the credit crisis might erode the capital levels and cause hardship for some of the largest banks, the public concern over potential bank failures is largely a "fear situation," and "overcorrecting because people think they're going to lose their money."

With some common-sense planning, however, your money will be safe.

The FDIC insures most deposits up to \$100,000, and even more for joint accounts, at each bank where they do business.

But be advised, that limit is per bank, not per account, and other technical rules apply, so if you have more than \$100,000 deposited in a single bank, I have two things to say to you.

First, mazel tov!

Second, you should look at this issue in much more detail to ensure that you are protected. The FDIC's web site, www.fdic.gov, is a good place to start.

Got a consumer situation? Call the Hook newsroom at 434-295-8700x405 or e-mail the Tough Customer directly.