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New FDIC Rule Creates Unlimited Protection for IOLTA Accounts

The Federal Deposit Insurance Corporation (FDIC) announced today that effective immediately client funds deposited in IOLTA accounts are eligible for unlimited deposit insurance coverage. All funds in an IOLTA account, regardless of size, will now be insured in full by the FDIC and backed by the full faith and credit of the United States Government as part of the Temporary Liquidity Guarantee Program (TLGP).

The TLGP, which was established last month, fully guarantees funds in non-interest bearing accounts until June 30, 2009. Lisa C. Wood, Chair of the IOLTA Committee, said, “By clarifying that IOLTA accounts, which create interest only for public use, are included in the TLGP protection, the FDIC has allayed attorneys’ concerns regarding the security of client funds.”

The IOLTA program represents a significant source of financial support for civil legal services to low-income Massachusetts residents. Attorneys who handle nominal or short term client funds that cannot earn net income for the client place these funds in pooled, interest bearing IOLTA accounts. IOLTA programs throughout the country are the result of a unique partnership between the banking and legal communities and are a major funding source for legal services programs.

A number of organizations had urged the FDIC to clarify that IOLTA accounts were covered by TLGP, including the Boston Bar Association, Massachusetts Bar Association, the Real Estate Bar Association, American Bar Associations, the Massachusetts Bar Foundation, the Massachusetts Access to Justice Commission, the Massachusetts Legal Assistance Corporation, the National Legal Aid and Defender Association and the National Association of IOLTA Programs. Individuals commenting in support of IOLTA included Governor Deval Patrick, Attorney General

Martha Coakley, Senator Edward Kennedy and Senator John Kerry, Representative Barney Frank, many other members of Congress and many individual attorneys.

“We appreciate the FDIC’s swift and decisive action in responding to those concerns with today’s decision,” say Wood. “ In these difficult times, IOLTA funding is critically important, and we are very appreciative of the many people who contacted the FDIC to assure continuity of funding by the IOLTA program here in Massachusetts and across the country. “

For further information, please contact the IOLTA Committee at 617-723-9093.