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Hurricane Wall Street: Four Steps Consumers Can Take to Protect Themselves

Ann Arbor, MI September 15, 2008 – “With Wall Street engulfed in the biggest financial crisis in a generation, there are a few things that consumers can do to protect themselves from this perilous storm,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers.

#1 – Make Sure Your Investments Are Protected Through the SIPC

The Securities Investor Protection Corporation (SIPC) was created in 1970 as a non-profit, non-government organization funded by its members: broker-dealers that trade in stocks, bonds, mutual funds and other investments in the financial markets. The primary role of the SIPC is to return funds and investments to investors if the broker-dealer holding these assets becomes insolvent. “The SIPC does not cover you if the value of your investments goes down,” said Nicholas. “The SIPC makes sure that you recover the assets in your investment accounts if your stock brokerage firm or the financial institution where you hold your investment account goes bankrupt. For example, if you have an account at Lehman Brothers or any other financial institution that goes bankrupt, the SIPC will make sure that you recover the assets you hold in the investment account. However, if the stocks or other investments that you hold in your investment accounts have lost value due to a decline in stock prices or market conditions, the SIPC will not reimburse you for the lost value of your investments.”

SIPC coverage is limited to \$500,000 per customer, including up to \$100,000 for cash. “This does not mean that you will only recover \$500,000 worth of your account,” said Nicholas. “Under virtually all circumstances, you will recover the full amount as part of the unwinding and liquidation of the brokerage firm.” If sufficient funds are not available in the firm’s customer accounts to satisfy all the claims, the reserve funds of the SIPC are used to supplement the distribution, up to a ceiling of \$500,000 per customer, including a maximum of \$100,000 for cash claims. Additional funds may be available to satisfy the remainder of customer claims after the cost of liquidating the brokerage firm is taken into account. According to the SIPC web site, it typically takes one to three months for investors to recover their property from an account at a failed brokerage firm.

SIPC covers stocks, bonds, mutual funds and other securities registered with the Securities and Exchange Commission (SEC), which is the government agency that oversees the SIPC. The SIPC does not cover unregistered investments such as commodity futures contracts or commodity options. In response to the impending collapse of Lehman Brothers yesterday, the SEC issued a press release specifically indicating that it is taking actions to ensure that those who

have accounts at Lehman Brothers will recover the assets in their accounts in the event that Lehman becomes insolvent.

#2 – Make Sure All Your Bank Accounts Are Covered with FDIC Insurance

The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency that was created in 1933 to insure bank depositors and protect them against the failure of their bank. The current limit on FDIC insurance is \$100,000 for bank accounts and \$250,000 for retirement accounts. “You should make sure that all deposits over the limit are held in separate accounts owned by different individuals or entities,” said Nicholas. “This means that if you are married with two children, you can have one account in your name, one account in the name of your spouse and one account each in the names of your two children, all with the maximum of \$100,000 in deposits, and you would still be fully insured for the full \$400,000.”

Additionally, if you have a corporation or limited liability company (LLC), your business can also have an account at that same bank and it will also be insured up to the \$100,000 limit. The only caveat is that the company must be engaged in an "independent activity," meaning that the entity is operated primarily for some purpose other than to simply increase your insurance coverage. When two or more insured banks merge, the deposits from the assumed bank continue to be insured separately for at least six months after the merger. This grace period gives you the opportunity to restructure your accounts, if necessary.

If your deposits at one bank exceed the FDIC limits, it's advisable to move the money and open up some new accounts at other banks that are not affiliated with one another and that are not owned by the same parent company. Additionally, you may consider asking your bank if they participate in the CDARS[®] network. CDARS[®] stands for Certificate of Deposit Account Registry Service[®], and it is offered by nearly 2,500 financial institutions across the country. When you place a large deposit with a financial institution that is part of the CDARS network, the financial institution uses CDARS to place your funds into certificates of deposit issued by other banks in the network. This occurs in increments of less than \$100,000 to ensure that both principal and interest are eligible for full FDIC insurance.

#3 – Max Out Your Home Equity Line of Credit Before Your Lender Cuts Off the Limit

“Lenders have been arbitrarily reducing credit limits on home equity lines of credit,” said Nicholas. “If you still have credit available on your home equity line, it could be very beneficial for you to draw out the money now before the lender reduces your limit. In this environment, it's probably a safer bet to have the cash sitting in your FDIC-insured bank account in case you lose your job or in case you need the funds for any other reason.”

#4 – Stop Making Extra Mortgage Payments and Take Out a Mortgage Even If You Don't Need One

“Cash is king in a liquidity crunch,” said Nicholas. “The worst thing you can do in this environment is dump more of your cash into your home equity because you may not be able to get access to it if you run into financial difficulties, if the housing market continues to decline, or if the credit crunch gets worse. Although it sounds counter-intuitive, you should have as big a mortgage as possible – even if you don't need it - and leave as much cash as possible in a safe, liquid place that is readily available to you. This empowers you to weather the storm and also have your funds available to take advantage of bargain opportunities that are becoming available because others have not followed this advice. In this environment, the one with the most cash wins.”

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

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