



Washington State

UNCLAIMED PROPERTY

Financial Institutions

This guide covers some common errors revealed during Unclaimed Property (UCP) audits of financial institutions including banks, saving and loans, and credit unions.

Deposits and other funds

Common terms

Abandoned account: An account with no positive owner contact for three years.

Inactive or dormant: An account without owner contact or account activity after a period of time.

Positive owner contact: Documented contact by the owner. Examples of this are:

- deposits
- withdrawals
- letters
- phone calls
- address changes
- positive owner contacts with a related account

Positive owner contact does not include unreturned mail sent by the financial institution, service charges, automatic interest transfers, and changes made by the bank such as zip code or area code updates.

Savings and checking accounts

Savings and checking accounts are abandoned if there is no positive owner contact for three years. You must pay interest on interest-bearing accounts until you remit the property to the state, unless you are permitted to stop interest by contract. We will pay interest on reported interest-bearing accounts to the owner at the rate you report for up to ten years.

The dramatic increase in mergers and upgraded computer systems in the banking industry may cause problems with aging and reporting unclaimed savings and checking accounts. Common problems found during audits include:

- A computer conversion caused the date used for aging accounts to be refreshed incorrectly.

- Merged branches from another financial institution had a conversion date problem.
- The UCP reporting program did not select accounts older than the current reporting requirement. For example, the program asks for accounts with the last activity between July 1, 2006, and June 30, 2007, for the 2010 report. Accounts with activity dates prior to July 1, 2006, do not appear on the report.
- The financial institution removed old information from the computer system, including erasing outdated messages, adding new fields, and other internal modifications. The modifications updated the customer contact field updates even though no positive contact occurred.

Human error can undo the best unclaimed property tracking system and inactive account procedures.

Common problems include:

- A branch manager incorrectly assumes that non-returned mail was positive owner contact and believed that only accounts with bad addresses are reported. Indirect evidence of owner contact, such as a statement mailed but not returned by the post office, is not positive owner contact.
- Branch employees continued to update inactive owner accounts, contrary to the new computer system procedures. Several accounts were not reported when required.
- The financial institution failed to send the required notification letter prior to reporting. You must send a notification letter to accounts over \$75 after May 1, and before August 1, unless you have proof the address is incorrect.
- The financial institution continued to take fees after the June 30 cutoff of the report year. All fees must cease on June 30 prior to reporting an account.

Related account activity

If the owner of an inactive account has multiple accounts with a financial institution, it is important to check related accounts for recent activity.

If the owner has a related account with positive owner contact within the last three years, use the most recent related activity for aging on all of the owner's accounts.

Example: A customer's savings account has had no customer-generated activity in the last three years. However, two years ago the customer also set up a time certificate of deposit. Assuming there is no future contact with the customer, both accounts are reported three years after the first maturity of the time certificate.

A common situation is a customer with a savings account that has had no activity for several years but they maintain an active checking account. In this situation the activity on the checking account would prevent the savings account from being abandoned and reported as unclaimed property.

Depending on your system, the accounts may be linked in your database. If you do not have linked accounts, you may have to review suspected dormant accounts for related accounts with more recent activity. Related accounts may include:

- Loan
- Savings account
- Checking account
- Safe deposit box
- Time certificate
- IRA or other retirement account

Positive owner contact can take many forms including a phone call from an owner requesting information about one of their accounts. Your employees can note the phone call in a comments field or logbook. This is evidence of positive owner contact.

Use care when updating inactive accounts based on non-transaction owner contacts. There is an internal control danger in allowing employees to reactivate an inactive account based on a telephone call record. If an account is in an inactive status, we suggest obtaining a written confirmation from the owner or have a second person follow up with a phone contact to the owner to verify the first employee's record.

Time certificates of deposit (TCDs)

The two types of time certificates of deposit (TCDs) are:

- **Automatically renewing time certificates** If there is no contact with the owner, these certificates are abandoned three years after the expiration of the initial rollover period. If the rollover period is less than one year, start aging one year from the date issued.
- **Matured time certificates of deposit (non-renewing)** If there is no contact with the owner, non-renewing certificates are abandoned three years after maturity.

Prevent Accidental Abandonment

Contact the owner within three years of the initial maturity or rollover period. Continue to follow up with the owner every three years. Related account activity also prevents abandonment.

Reporting Time Certificates

Automatically renewing TCDs may become abandoned and reportable prior to the next rollover date. If the bank forfeits interest or charges a penalty for closing the TCD prior to rollover, you need to postpone reporting and report the TCD at its next maturity. This procedure could require the bank to file several reports throughout the year as “abandoned” TCDs mature. Most financial institutions waive forfeitures and penalties when reporting abandoned TCDs to avoid reporting several times each year.

Inactivity fees and ceasing interest

When interest is ceased or fees are charged for inactivity of accounts, customers impacted by these practices are usually unaware of the fees and cannot complain or move their funds. Incorrectly charged inactivity fees or ceased interest will be considered unclaimed property if discovered during an audit.

The Uniform Unclaimed Property Act of 1983 has three requirements before inactivity fees are charged or ceasing interest on accounts.

1. Enforceable written contract

- Your contract must have clear terms allowing inactivity charges or ceasing of interest. The owner must have access to the contract. Your contract must clearly define what inactivity is and when the charge will begin or interest will cease. If you change your contract regarding inactivity, you must send a notice to all owners so they have a chance to respond. If the contract change will affect inactive accounts, send the revised contract to the last known address. We will accept a mass mailing to all accounts as a good faith effort to advise the inactive owner.

Problems uncovered in audits include:

- Inactivity or dormancy was not clearly defined or varied between contract, fee schedule, and written procedure.
- Contract terms were not accessible or hidden. **Example:** Putting the terms in small print on the back of a signature card.

- Inactive fee/interest cessation contract changes not mailed to all account holders.

2. Notification of charge letter to inactive accounts over \$10

For accounts over \$10, a letter must be mailed to the owner no more than 90 days before the initial charge. The letter must state the amount of the charge and/or that interest will be ceased and that the condition will be imposed.

Problems encountered include:

- Not mailing the letter during the time specified by statute.
- The letter does not state amount of the charge.
- Mailing a general notice to all depositors instead of a specific notice to the account owner.

3. No reversal of charges or waiver of interest

If a financial institution routinely reverses inactivity charges or reinstates interest for returning owners, the state should gain the same benefit with abandoned accounts.

Problems encountered include:

- The written procedure not followed in practice.
- The rules, regulations or procedures create a “grace period” amounting to a waiver. **Example:** If the depositor comes back after the fees have been imposed but before the items are reported, all inactive fees are waived.

Official checks, money orders, and travelers' checks

Uncashed official checks, such as cashiers' checks or certified checks, are presumed abandoned three years after they are issued or from the last positive owner contact. Uncashed money orders are abandoned after five years. Unused travelers' checks are abandoned fifteen years from the issue date or last positive owner contact. The owner of the check is the "payee," not the purchaser.

Important points:

- Contractually, you may not deduct any charges imposed for failure to present the check or other written instrument for payment.
- Money orders and travelers checks are reportable to the state where purchased.
- If you provide a payroll service for companies, payroll service checks are reportable after one year. Return these checks to the issuing company for reporting or report them directly. Because of the short timeframe to return checks to client companies for reporting, many financial institutions report for the companies.
- "Buried" checks can go unreported when a number sequence repeats. If you expect all the older checks to be at the top of the outstanding check report, and it sorts by number, you may find buried pockets of older checks deep in the report where the number sequence has repeated.
- If you issue checks on the financial institution's account for members, do not redeposit stale-dated check amounts back to the member account without authorization from the member. Unless the member indicates the check is lost or not used for the purpose intended, the owner is the payee.

Individual retirement arrangements (IRAs), keoghs, and other savings plans

Planned savings accounts are not payable or distributable until distribution of all or part of the funds would be mandatory. Once this occurs, the accounts begin to age for unclaimed property reporting. If there is no positive owner contact after three years, the account is abandoned.

IRAs and Keoghs

The mandatory payout age for an account holder is 70½. Report the property if there is no positive owner contact and the owner is at least 73½.

Roth IRAs

Unless the owner of the Roth IRA is deceased, they are usually not reportable. If the owner of a Roth IRA is deceased and the beneficiary's whereabouts are unknown, commence the abandonment period from the date of the owner's death.

Coverdell education savings accounts (Educational IRA)

Provisions for distribution must occur 30 days after the beneficiary's 30th birthday. You must report the property if there is no positive owner contact after three years.

Health savings accounts (HSA)

Report the property if there is no positive owner contact on this or any related account after three years. If the owner reclaims the property and uses the funds for non-qualified expenses, they would suffer unpaid taxes and a 10% penalty. Report these accounts as "Owner name, HSA."

Uniform transfers to minors act (UTMA, UTMA, UGMA)

These accounts are abandoned after three years with no positive owner contact. (RCW 11.114) The property must be identified as a UTMA account when reporting.

Example: (first owner name) John Doe, Custodian, (second owner name) Jane Doe, UTMA.

Safe deposit box contents

All tangible and intangible property held in a safe deposit box (SDB) is abandoned five years after the lease or rental period has expired. The detailed SDB report is included with October reporting. The Department will contact you with delivery instructions.

The Department sells safe deposit contents at auction within five years of receipt. After the auction, financial institutions receive a letter explaining the process for drilling fees and rental charge reimbursement.

Common problems:

- Property is aged from the drill date of the safe deposit box not the expiration of the lease or rental period.
- Failure to identify and drill delinquent boxes on a regular schedule often causes late reporting.
- Property description is incomplete.
- Inventory report is illegible.

See our Unclaimed Safe Deposit Boxes reporting guide for more detail on reporting safe deposit box contents.

Corporate and personal trust

Larger institutions may have a trust department. There are several types of property reported in this area including: uncashed checks, undeliverable stock, underlying shares, and unredeemed bonds and interest payments.

Corporate trust

The financial institution acts as an agent on equity and debt issues for companies, and pays stock and bond holders.

Payroll service and other business services

Some financial institutions offer payroll processing and other agent services for business clients. If the service generates reportable unclaimed property, the financial institution may need to report it on behalf of the company or return it to the company so they can report it as unclaimed property.

Financial institution gift cards

Gift cards or gift certificates issued by financial institutions are still reportable as unclaimed property. Many financial institutions now offer gift cards or similar stored value cards for customers. If the card value is not increased or used for three years, the remaining balance is considered abandoned. Expiration dates do not apply when reporting gift cards.

Personal trust

Includes managing individual trust accounts and making payments from those trust funds.

Equity

While the corporation remains liable to report abandoned stock or dividends as unclaimed property, often trust departments report the unclaimed property as a service.

Unclaimed dividends and undelivered stock certificates are abandoned after three years. Underlying shares and dividends to date are abandoned when there are three years of uncashed dividends and no contact with the owner.

Debt

Unclaimed matured bonds and unredeemed bond coupons or interest payments are abandoned three years from the date payable when held by a fiduciary or agent. If the fiduciary or agent plans to return the property to the issuer for reporting, they need to be aware that state and local governments report such items two years following the date payable.

The bond trustee or paying agent has the option of reporting the unclaimed property or returning the items to the issuer. If you return the property to the issuer, please advise the issuer of the reporting requirements.

Internal control

Strong internal controls safeguard members' accounts and prevent possible theft or misuse of account funds. It is advisable to keep these accounts under dual control and implement other types of security measures. Examples of internal controls include:

- Require special authorization to view inactive accounts.
- Require dual authorizations for any transaction to an inactive account.
- Maintain unclaimed property reports in a locked file with limited access.
- Separate reactivation/refund and reporting functions.
- Hold periodic internal audits of inactive accounts and procedures.

Penalties

The following penalties apply to Unclaimed Property Reports:

- 10% - late report penalty if report is not filed or paid by the due date.
- 10% - Assessment penalty when an examination results in an assessment for amounts unpaid or property not delivered.
- 5% - Additional penalty for amounts assessed and not paid by due date.
- 5% - Report penalty when holder does not file and pay electronically when required.

Note: Penalty amounts are based on amounts unpaid and the value of any property not delivered. These penalties are cumulative.

Questions and answers

Q Does positive owner contact have to be another bank account?

A No, any related activity with the financial institution will stop abandonment. Recent customer activity on a bank loan, credit card account or related financial offering of the institution, is considered related account activity. Also, don't overlook Internet usage. If a customer logs in for online banking or corresponds with you via email, orders new checks, or uses your bill payment system, all of those activities are positive owner contacts.

Q The bank's new computer system will show automatic interest checks and transfers from TCDs as an activity. Is this a problem?

A Automated transactions can provide false evidence of activity where no actual contact exists. Depending on the number of accounts you have, you should develop a manual or automated procedure to periodically verify accounts that appear to be active but have no activity other than the automatic transfer.

One common method is to request a listing of all TCDs with automatic transfer of interest. You can verify the following:

1. Other account activities
2. Valid mailing addresses
3. Cashed interest checks

Q RCW 63.29.170(6) requires notification letters be sent to accounts over \$75 between May 1 and August 1 of each year in which a report is filed. It is expensive, and it duplicates the inactive letter we send a few months earlier. Do we have to send this "Due Diligence" letter?

A Yes; this requirement only applies to accounts over \$75 that appear to have an accurate address according to your records. When you send letters relating to inactivity, note those accounts that come back undeliverable. This may eliminate many of the over \$75 candidates. If you mail duplicate letters within months of the required letter, you may want to adjust your inactive account system to the legal requirement.

Q Our credit union has a member with a small savings account and a five-year TCD. There is no activity on either account for over three years but the TCD still has 15 months to maturity this October. A member cannot have a time certificate without a savings account. What do we do?

A Take appropriate steps to locate the owner before reporting. This may include research beyond your normal procedures. If you are unable to locate the owner, you may report the TCD early with the savings account.

Q What is the Unclaimed Property Section's position on charging a dormant fee and ceasing interest on an inactive bank account?

A Court cases have shown that fees charged for inactivity are generally not in the best interest of the missing owner. Other charges imposed are tested in the marketplace and customers complain and/or change financial institutions if a fee is unreasonable. Most "active" customers are oblivious of potential inactive charges and are not available to complain when the account becomes "inactive."

If the financial institution charges dormancy fees or ceases interest on inactive accounts, we expect them to meet the specific requirements of RCW 63.29.060(4). For a fee to be charged or interest to cease due to inactivity the bank must:

- Have an enforceable written contract.
- Make mass mailings of any changes to all depositors, including inactive accounts.
- Give prior notice to the \$10 and over inactive accounts 90 days before the initial charge showing amount and effective date.
- Not regularly waive conditions.

IMPORTANT: The paper report of unclaimed property has a field for deductions taken. Our electronic format has fields for deductions taken and additional interest. The instructions request a copy of the contract allowing you to take the charge or cease interest.

Unclaimed Property Contact Information

Website: ucp.dor.wa.gov

Main Phone: (360) 534-1502

Toll Free: 1-800-435-2429
(Washington State only)

Fax: (360) 534-1498

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For tax assistance or to request this document in an alternate format, visit <http://dor.wa.gov> or call 1-800-647-7706.

Teletype (TTY) users may use the Washington Relay Service by calling 711.

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