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Consumer News

EDITOR: *Josie Downey* — *The Bank Customer's Publication* — **April 1981**

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Early Withdrawals Of Time Accounts Can Result In Forfeiture Of Interest

Today's rapidly fluctuating interest rates are causing consumers to seek not only the highest rate of return on their investments but also liquidity. But consumers who invest in time accounts should be aware of the penalties for withdrawal of these accounts prior to maturity before they move their funds elsewhere.

The three kinds of penalties for early withdrawal are:

- For certificates of deposit purchased before July 1, 1979, and not extended or renewed since that date, the penalty is forfeiture of three months' interest on the amount of deposit plus the reduction of the interest rate to the savings deposit rate on the balance of the amount of deposit to the date the certificate was purchased. The penalty may go into the principal.
- For certificates renewed or extended on or after July 1, 1979, but before June 2, 1980, the penalty is forfeiture of three months' interest for certificates with maturity terms of less than one year or forfeiture of six months of interest for certificates with maturity terms of one year or longer. Note that the penalty does not go into the principal.
- For certificates purchased, renewed, or extended on or after June 2, 1980, the penalty is forfeiture of six months' interest for certificates with maturity terms of one year or longer, forfeiture of three months to less than one year maturities, and forfeiture of all interest for certificates of less than three months maturity term. These penalties apply regardless of how long a certificate may have been on deposit. If a deposit is withdrawn too soon, the penalty could include part of the principal.

The customer should keep in mind that a bank may assess a greater penalty if it so chooses; however, banks are legally required to describe exactly what the penalty is for early withdrawal.

Many people believe that banks must allow early withdrawal of time deposits upon request. The law clearly indicates that with certain exceptions, banks have the option to allow or refuse early withdrawal of time deposits. Banks cannot give blanket approval to early withdrawals, but must consider each case.

The following conditions apply to all time deposits, including six month "money market" certificates, 2½ year "small saver" certificates, and sometimes to deposits of more than $100,000.

- Banks must grant a request for early withdrawal upon death of any owner of a time deposit or if any owner of a time deposit has been declared incompetent by a court. The penalty may not be mandatory in such a case, but the banks may enforce if they choose.
- Banks need not apply penalties when allowing early withdrawal for time deposits if the deposit consists of Individual Retirement Account or Keogh (H.R. 10) funds and the person for whose benefit the account is maintained is 59½ or older or has become legally disabled.

FDIC regulations require banks to give a customer at the time he or she buys a certificate of deposit or other deposit a written statement indicating the bank will assess a penalty on funds withdrawn before maturity.

Consumers Have Equal Access To Credit

The Equal Credit Opportunity Act does not give anyone an automatic right to credit. It does require that creditors apply the same standard of "creditworthiness" equally to all applicants.

The Equal Credit Opportunity Act is a Federal law which prohibits discrimination against an applicant for credit on the basis of race, color, religion, national origin, age, sex, marital status or reliance on income from public assistance, or because the applicant may have exercised rights under the consumer protection laws. (Discrimination is defined as treating one applicant less favorably than others for invalid reasons.)

Creditors are all banks, savings and loans, credit unions, finance companies, department stores, credit card issuers, car and appliance dealers and others who regularly extend credit to consumers.

Creditors want to be assured of two things: your ability to repay a debt and your willingness to do so. To ascertain this information, the creditors will ask you about your finances: how much you

(Cont. on page 2.)

PREPARED BY THE DIVISION OF BANK SUPERVISION
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Consumers Should Know About Mortgages And Related Costs Before Buying A Home
Part I

Buying a home is the largest financial investment most people will ever make. It is best to be fully informed at every step of the way. The more you know, the more likely you are to make sound decisions. This is the first of a three part article that will help guide, inform, and direct you during the home buying experience.

Before you apply for a mortgage on the house you have chosen to buy, compare the mortgage terms of different lenders. It's important to know how to get a mortgage that offers the best terms.

Once you and a seller agree on a price of a house, or if you offer a contract a seller accepts, a purchase agreement is signed. A purchase agreement is a legal contract in which a seller agrees to sell and a buyer agrees to buy a piece of property. The terms and conditions of the sale are stated in the agreement and it is signed by the buyer and seller.

After signing the purchase agreement, check with several lenders to find out what financial terms they offer. It pays to shop around for the lowest interest rates.

For example, a $50,000 mortgage for 30 years at 13¾ percent interest costs you $582.56 per month. The same mortgage for 30 years at 13¼ percent interest costs you $562.89. The lower interest rate saves you $19.67 per month, and about $7,080 over the life of the mortgage.

A longer mortgage term means smaller monthly payments but you pay more in total interest.

For example, a $50,000 mortgage at 13¾ percent interest for 20 years costs you $612.70 per month. The same mortgage at 13¾ percent interest for 30 years costs you $582.56 per month. The longer term reduces your monthly payment by $30.14 per month, but you end up paying $62,674 more to the lender as a result of the longer mortgage term. Keep in mind that these monthly payments consist *only* of principal and interest.

The amount of your down payment may determine the interest rate you have to pay on the loan. If you make a larger down payment, the lender may charge you a lower interest rate. The larger down payment reduces the risk to the lender and usually results in a lower rate.

For FHA and VA loans, the interest rate you pay is fixed by the government and is adjusted from time to time to reflect changes in conventional interest rates.

To help you better understand the mortgage payment process, ask the creditor or lender for a thorough explanation of the following information:

- The principal amount of the mortgage, the interest rate of the mortgage (as low as possible); the term (years) of the mortgage, and the monthly payment.
- What type of mortgage is better for you. The Standard Fixed Rate Mortgage is a long term loan (25 or 30 years) set at a fixed rate of interest, with fixed monthly payments over the life of the loan. If you sign a contract stating you will pay an amount at 17 percent interest, 17 percent interest is what you always will pay on the loan. The seller cannot change the rate of interest on your loan, whether the rate goes up or down in the market.

Other types of mortgages that may be of interest to you are the Variable Rate Mortgage and Renegotiable Rate Mortgage. These mortgages allow the lender during the life of a mortgage to change the rate of interest in accordance with the market. For example, if you sign a contract stating you will pay 17 percent interest on a loan and then a year later the interest rate goes up to 20 percent, the lender can change your interest rate from 17 percent to 20 percent to coincide with the market rate or the lender can decrease the rate from 17 percent to 12 percent if the market rate is 12 percent. The amount the rate can be changed and the frequency are sometimes governed by Federal regulation, by State law, and by the terms of the contract between lender and buyer.

Another mortgage is the Shared Appreciation Mortgage. The lender shares the profit on the sale of a house in return for a lower-than-market interest rate (reduced monthly payments) during the first ten years of the loan. Many of these loans are written so that at the end of ten years, the homeowner must pay the bank its share of the profits based on the appreciation of the home even if the owner doesn't sell. The owner may have to refinance the house at that time with a new mortgage in order to pay the bank its share, but the new monthly payments may be too high because of the appraised value (an evaluation of the house to determine its value and what it would sell for in the market) of the property and the subsequent size of the loan.

In the May issue - Part 2, more on what you should know before buying a home.

'Equal Credit' Rule Explained

(Cont. from page 1.)

earn, what kinds of savings and investments you have, what other sources of income you have. They may look for signs of reliability: your occupation, how long you've been employed, how long you lived at the same address, whether you own or rent your home. They may also examine your credit record: how much you owe, how often you've borrowed, and how you've managed to pay past debts.

Creditors may not ask you your sex on a credit application — with one exception. If you apply for a loan to buy or build a home, creditors are required to ask your sex to provide the Federal government with information to monitor compliance with the Act. You do not have to answer the question.

Creditors may not request your marital status on an application for an individual, unsecured account (a bank credit card or an overdraft checking account) in non-community property states. They may request your marital status on other than individual unsecured loans. In community property states, they may request your marital status. Community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington.

Creditors may consider your marital status because, under the laws of your state, there may be differences in the

(Cont. on page 4.)

Antes De Comprar Una Vivienda Los Consumidores Deben Estar Informados Acerca De Los Préstamos Hipotecarios Y Los Costos Correspondientes

El comprar una vivienda es la inversión financiera más grande que muchas personas jamás lleven acabo. Es importante que usted esté informado plenamente en cada paso del camino. Si usted conoce más información, estará capacitado a hacer una decisión sabia. Esta es la primera parte de un artículo de dos partes que le servirá de guía e información durante el proceso de comprar una casa.

Antes de solicitar un préstamo hipotecario para la vivienda que ha seleccionado, compare los términos hipotecarios ofrecidos por diferentes prestamistas. Es importante conocer como conseguir un préstamo hipotecario que le ofrezca los mejores términos.

Una vez que usted y su vendedor fijen el precio de la vivienda, o si usted ofreze un contrato que el vendedor acepta, se firma un contrato de compra. Un contrato de compra es un contrato legal en el cual el vendedor accede a vender, y el comprador accede a comprar una propiedad. El contrato que está firmado por el comprador y el vendedor establece los plazos y las condiciones de dicha venta.

Después de firmar el contrato de compra verifique con varios prestamistas para conocer los términos financieros que éstos le ofrezen. Paga comparar para conseguir la tasa de interés menor.

Por ejemplo, un préstamo hipotecario por la suma de $50,000, por un término de 30 años, pagando interés a razón de 13¾ por ciento, le cuesta mensualmente $582.56. El mismo préstamo hipotecario por un término de 30 años, pagando interés a razón de 13¼ por ciento, le cuesta mensualmente $562.89. La tasa de interés menor le ahorra mensualmente $19.67, y alrededor de $7,080 durante la duración de la hipoteca.

Un plazo hipotecario más largo significa pagos mensuales menores pero usted termina pagando una cantidad mayor de interés total.

Por ejemplo, un préstamo hipotecario por la suma de $50,000, pagando interés a razón de 13¾ por ciento, por un término de 20 años le cuesta mensualmente $612.70. El mismo préstamo hipotecario pagando interés a razón de 13¾ por ciento, por un término de 30 años le cuesta mensualmente $582.56. El plazo más largo reduce su pago mensual por $30.14, pero usted termina pagando al prestamista alrededor de $62,674 más, debido al largo plazo de la hipoteca.

La cantidad de su pronto de pago puede determinar la tasa de interés que usted tiene que pagar en un préstamo. Si usted hace un pronto de pago grande puede que el prestamista le cargue una tasa de interés menor. El pronto de pago grande aminora el riesgo que el prestamista tiene que tomar, y usualmente resulta en una tasa menor.

La tasa de interés de los préstamos hipotecarios de FHA o VA la fija el gobierno y de tiempo en tiempo se varia o altera para reflejar los cambios de las tasas de interés convencionales.

Para ayudar a que usted conozca mejor el proceso de los pagos hipotecarios, pregúntele al acreedor o el prestamista una explicación detallada de la siguiente información:

> La cantidad principal del préstamo hipotecario, la tasa de interés de la hipoteca (la más baja posible), el plazo (años) de la hipoteca y los pagos mensuales.

¿Qué tipo de préstamo hipotecario es mejor para usted? El préstamo hipotecario conocido como "Standard Fixed Rate Mortgage" (Hipoteca con una Tasa de Interés Fija) es un préstamo a largo plazo (25 o 30 años) que ha sido acomodado a una tasa de interés fija, con pagos mensuales fijos durante la duración del préstamo.

Si usted firma un contrato que estipula que usted va a pagar una cantidad pagando interés a razón de 17 por ciento, interés a razón de 17 por ciento es lo que pagará en dicho préstamo. El prestamista no puede cambiar la tasa de interés de su préstamo, a pesar de que el mercado de la tasa de interés sube o baja.

Otros tipos de préstamos hipotecarios que pueden ser de su interés son "Variable Rate Mortgage" (Hipoteca con una Tasa Variable) y "Renegotiable Rate Mortgage" (Hipoteca con una Tasa Renegociable). Durante la duración de estos préstamos hipotecarios el prestamista puede cambiar la tasa de interés de acuerdo con el mercado. Por ejemplo, si usted firma un contrato que estipula que el interés que pagará en dicho préstamo será a razón de 17 por ciento y luego un año más tarde la tasa de interés sube a un 20 por ciento, el prestamista puede cambiar su tasa de interés de 17 por ciento al 20 por ciento para de esta manera coincidir con la tasa del mercado. El prestamista también puede bajar la tasa de 17 por ciento al 12 por ciento si la tasa del mercado es 12 por ciento. La cantidad y la frecuencia que la tasa puede cambiar están a veces controladas por reglamentos federales, por leyes estatales y por los términos del contrato entre el prestamista y el comprador.

Otro préstamo hipotecario es el "Shared Appreciation Mortgage" (Hipoteca con la Participación del Aumento de Precio). En esta hipoteca el prestamista participa en las ganancias de la venta de la vivienda a cambio de ofrecer durante los primeros 10 años de la misma una tasa de interés menor (pagos mensuales reducidos) que la que prevalece en el mercado. Muchos de estos préstamos estipulan que al final de los primeros 10 años, el propietario de la vivienda tiene que pagarle al banco su participación de las ganancias del aumento en precio de la vivienda, aún si el propietario no decide vender. Para poder pagarle al banco su participación de las ganancias el propietario puede que tenga que refinanciar la vivienda con un préstamo hipotecario nuevo, pero los pagos mensuales nuevos pueden que sean mayores debido a que el valor estimado (una evaluación de la vivienda que determina el valor y en cuanto se vendería en el mercado) de la propiedad y al tamaño del préstamo subsecuente.

La segunda parte de este artículo se publicará en la edición de mayo. En éste encontrará más información de lo que usted debe conocer antes de comprar una vivienda.

FDIC CONSUMER NEWS

Si usted desea recibir este noticiero favor de enviar su nombre y dirección postal a la siguiente dirección:

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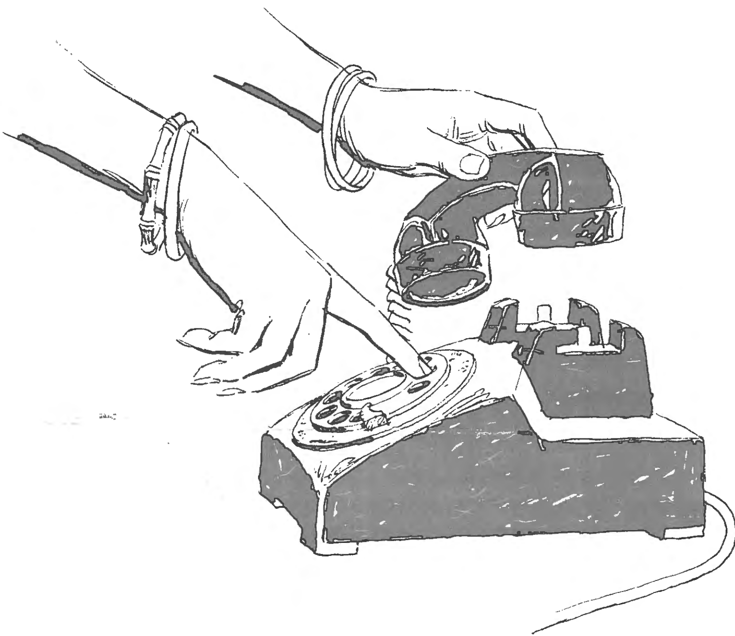
Washington, D.C. 20429

Questions From Bank Customers



FDIC CONSUMER HOTLINE

— 800-424-5488—

Q. Does interest earned on a certificate of deposit have to be reported to the Internal Revenue Service?

A. Yes, all interest paid or earned and available on a certificate of deposit must be reported to the IRS by the consumer. In addition, the bank must report directly to the IRS any interest in excess of $10.00 paid to a consumer or accrued for a consumer.

Q. Are savings and loan institutions under the FDIC's jurisdiction?

A. No, information regarding savings and loan institutions may be obtained from the Federal Home Loan Bank Board.

Q. Are money market certificates and money market funds insured by the FDIC or FSLIC?

A. Money market certificates are 6-month time deposits of $10,000 or more issued by insured banks and savings and loan associations. As such, they are insured by the FDIC or FSLIC up to $100,000 together with all other deposits held by the depositor in the same right and capacity in the same insured bank or savings and loan association.

Money market funds are mutual funds in which the investor becomes a proportionate owner of the assets of the fund and shares proportionally in the income derived from those assets, including short term government securities and large certificates of deposit. Monies invested in such funds are not insured by the FDIC or FSLIC since they do not represent deposit obligations of insured banks or savings and loan associations.

Consumers Have Equal Access To Credit (Cont. from page 2.)

property rights of married and unmarried people. Such differences may affect the creditor's ability to collect if you default. This consideration does not apply to individual unsecured loans.

On the other hand, creditors cannot refuse to consider your income if you are a married woman, even if your income is from part-time employment.

In order to estimate your expenses, creditors may ask how many children you have, their ages, and the cost of caring for them, as well as about your obligations to pay child support or maintenance. They cannot ask about your birth control practices or your plans to have children. Creditors cannot assume that you will have children or that a woman's income will be interrupted to do so.

Creditors may also ask how regularly you receive or pay your alimony payments, or whether they are made under court order, in order to determine whether these payments are a dependable source of income. Also, creditors cannot refuse to consider reliable alimony, child support, or separate maintenance payments. You don't need to disclose alimony or child support payments unless you will rely on that income to pay off the loan.

For more information, write to the Office of Consumer and Compliance Programs, FDIC, 550 17th St., N.W., Washington, D.C. 20429, and request the "Equal Credit Opportunity" pamphlet.

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