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FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC Consumer News

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

Volume I No. 8

Not All Borrowers Need Credit Life Insurance

Credit life, accident and health insurance are optional services offered by many creditors as part of a loan transaction. A borrower's decision to buy such additional insurance should be based on whether the borrower already has sufficient insurance and assets to satisfy his or her debts and other expenses in the event of death or disability. Should the borrower feel the need for additional or supplemental coverage, the purchase of credit life or accident and health insurance may be beneficial.

The following questions and answers may help you decide if you need credit insurance.

Q: What is credit insurance?

A: Credit life insurance or accident and health insurance is insurance that either pays off the outstanding balance of a loan or a stipulated amount if the borrower dies, or that covers loan payments if he or she becomes ill or disabled. The creditor is usually the primary beneficiary if the borrower dies or becomes disabled.

Q: What types of credit insurance are available to consumers?

A: The two major types of credit insurance that are available to consumers are credit life and credit accident and health. If the borrower dies, credit life insurance pays benefits to the creditor that generally satisfy the borrower's debts. If the policy benefit exceeds the debt, the excess goes to the borrower's spouse or estate or other beneficiaries. Typically, few credit life policies have coverage in excess of the debt. Benefits from a credit accident and health (disability) policy are paid to a creditor when the borrower has become ill or disabled and installment payments are due. Disability plans and requirements for benefits may vary among insurance companies.

Q: How does credit life insurance differ from ordinary life insurance?

A: Credit life insurance differs from ordinary life insurance in that credit life usually involves small amounts of coverage (unless it is for a mortgage). It is sold primarily through lenders and merchants who offer credit. The premiums are usually the same regardless of the borrower's age and, in most cases, a medical examination is not required for coverage.

Q: How much does credit life insurance cost?

A: Credit life insurance rates vary from state to state. The cost of credit insurance is usually \$1.00 per \$100 per year. For example, the cost of insurance for a \$3000 thirty-six month installment loan would be \$90.00 (\$1.00 × 30× 3). As the outstanding balance of the loan decreases so does the insurance coverage, assuming loan payments are made in accordance with the terms of the original loan contract.

Q: What are the requirements to be eligible for benefits under a credit life policy?

A: Generally, the requirements to obtain credit life insurance are:

(1) the borrower must be under the age of 65;

(2) a suicide clause may be stated in the policy to the effect that no benefits will be paid if the borrower commits suicide within the first two years of the policy;

(3) a declaration that the borrower has not consulted a physician or been confined in a hospital within the past six months for specific ailments. This statement is sometimes called a "contestability" (good health) clause. If the borrower dies and it is found that the borrower made a false statement about his or her health, the claim may be denied.

Q: Can credit insurance coverage ever exceed the amount of the loan?

A: Yes, but only if the insurance company offers a level-term policy. Under this policy the amount of coverage remains constant throughout the term of the loan. If the borrower dies having a \$5000 policy in effect at the time of death and a \$4000 balance due (principal and interest) on the loan, the creditor would receive \$4000 and the secondary beneficiary would receive \$1000. Many insurance companies that sell credit life offer only the declining balance policy. The coverage on a declining balance policy decreases as the balance on the loan decreases as long as loan payments are made as contracted.

Q: Can a lender require a borrower to purchase credit life insurance?

A: Though a lender may require the borrower to have insurance as security for a debt, state laws generally make it illegal for the lender

(Cont. on page 5.)

PREPARED BY THE DIVISION OF BANK SUPERVISION
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Consumers Should Comparison Shop For Credit Terms

Borrowing money is expensive, making it important to comparison shop for the best credit terms.

State legislatures regulate the maximum interest rates allowable in their jurisdictions for most types of consumer loans. Consumers should be aware of the various types of loans and their maximum rates before applying for credit.

Home mortgage loan interest rates are based on what the market dictates. Variable Rate Mortgages allow the lender to change the rate of interest in accordance with the market.

Federal Housing Administration (FHA) and the Veterans Administration (VA) loan interest rates are set by the government and don't change over the life of the loan. Also, VA loans do not require down payments. FHA, VA, and some conventional loans have assumable mortgages. An assumable mortgage is a mortgage that may be taken over by the buyer at the same interest rate fixed at the time the seller obtained the mortgage. Also, some mortgages may be assumed with an upward adjustment of the interest but still below what might otherwise be obtainable.

Graduated Payment Mortgages are becoming more popular and allow for smaller payments during the first few years with increased payments in the later years of the mortgage term when a consumer's earning power is presumably greater.

Installment (closed-end) loans are repaid in a series of installments over a specified time period. Installment loans have an interest rate fixed at the time the loan is made. The loans are used for major purchases such as automobiles, furniture, tuition or vacations. Such loans are often arranged through auto dealers or other retail businesses and may be obtained through credit unions, sales finance companies, commercial banks, or small loan companies.

Not all small loan companies are subject to interest rate limits and such limits vary from state to state. Loans from sales finance companies and small loan companies may be more costly since they are often granted to higher risk customers.

Open-end loans are another prevalent form of credit. Under the open-end loan, consumers are issued credit cards with a predetermined maximum ceiling on the amount they are allowed to borrow for consumer purchases. These cards (Visa, Master Card, etc.) typically are issued by department stores and banks. The typical interest rate charged is 1½ percent a month or 18% annually. However, when the balance is paid upon receipt of each statement, interest charges are avoided.

Federal law does not set rates or tell the creditor how to calculate finance charges, but it does require that the creditor give you certain information about the cost of the credit. Be sure to ask for an explanation of any terms you don't understand.

Shop around for the best terms. To compare and evaluate a lender's rate, examine these points:

(a) the annual percentage rate;
(b) the total cost of the loan in dollar amount;
(c) the length of time you have to pay off the loan;
(d) the cost of deferring or extending the time period of the loan;
(e) the cost of late charges for overdue payments;
(f) the cost of credit life or other insurance that is being offered or that may be required;
(g) the amount you must pay every month.

By Josie Downey

Los Consumidores Deben Comparar Hasta Conseguir Los Mejores Términos De Crédito

El tomar dinero prestado es costoso, por esta razón es importante comparar hasta conseguir los mejores términos de crédito.

La Asamblea Legislativa Estatal regula las tasas máximas de interés de la mayoría de los préstamos del consumidor que se puenden ofrecer bajo su jurisdicción. Antes de solicitar crédito los consumidores deben estar informados sobre diferentes clases de préstamos y las tasas máximas de éstos.

Las tasas de interés de los préstamos hipotecarios para viviendas están basadas en la tasa dictada por el mercado. Bajo las Hipotecas Con Una Tasa Variable ("Variable Rate Mortgages") el prestamista puede cambiar la tasa de interés de acuerdo con el mercado.

El gobierno fija las tasas de interés de los préstamos de la Administración Federal de Viviendas ("Federal Housing Administration" conocido por las siglas "FHA") y la Administración de Veteranos ("Veterans Administration" conocido por las siglas "VA") y éstas no cambian durante la vigencia del préstamo. Además, los préstamos garantizados por VA no requieren un pronto de pago. FHA, VA, y algunos préstamos convencionales ofrecen hipotecas que puenden ser asumidas. Una hipoteca que puede ser asumida es una hipoteca en la que el comprador adopta la misma tasa de interés fija que el vendedor obtuvo al conseguir el préstamo. Algunos préstamos hipotecarios también pueden ser asumidos con un interés de ajuste ascendente, pero aún este interés es mas bajo del que de otra forma puede obtenerse.

Los Pagos Hipotecarios que Ascienden Gradualmente ("Graduated Payment Mortgages") están adquiriendo popularidad. Durante los primeros años del plazo hipotecario esta hipoteca permite pagos menores, con pagos ascendentes en los últimos años, cuando supuestamente las ganancias del consumidor son mayores.

Los préstamos a plazos (con límite) son reembolsados en una serie de plazos durante un término determinado. Los préstamos a plazos tienen la misma tasa de interés fija que se obtuvo al concederse el préstamo. Estos préstamos son utilizados para compras importantes, tal como compras de automóviles, muebles, educación o vacaciones. Tales préstamos son acuerdos a través de los comerciantes de automóviles u otros comercios de detalle y pueden obtenerse a través de las uniones de crédito, compañias financieras de venta, bancos comerciales, u compañas de préstamos pequeños.

(Cont. on page 3.)

FDIC CONSUMER NEWS

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

Josie Downey, Editor
FDIC Consumer News
550 17th Street, N.W.
Washington, D.C. 20429

FDIC Offers Consumer Pamphlets

The following is a list of FDIC's consumer information pamphlets. Each pamphlet provides the addresses of FDIC and other Federal regulatory agencies that a consumer may contact to file a complaint or seek advice and assistance. Copies may be ordered from: FDIC, Office of Consumer and Compliance Programs, 550 17th St., N.W., Washington, D. C. 20429.

Truth in Lending - explains what disclosures must be made in connection with credit finance charges and annual percentage rates; protections against unauthorized credit card use; advertisement of credit terms; and cancellation rights when a credit transaction is secured by a home.

Fair Credit Billing - describes how to deal with billing errors and defective merchandise or services, and how to protect one's credit rating. This pamphlet also is available in Spanish.

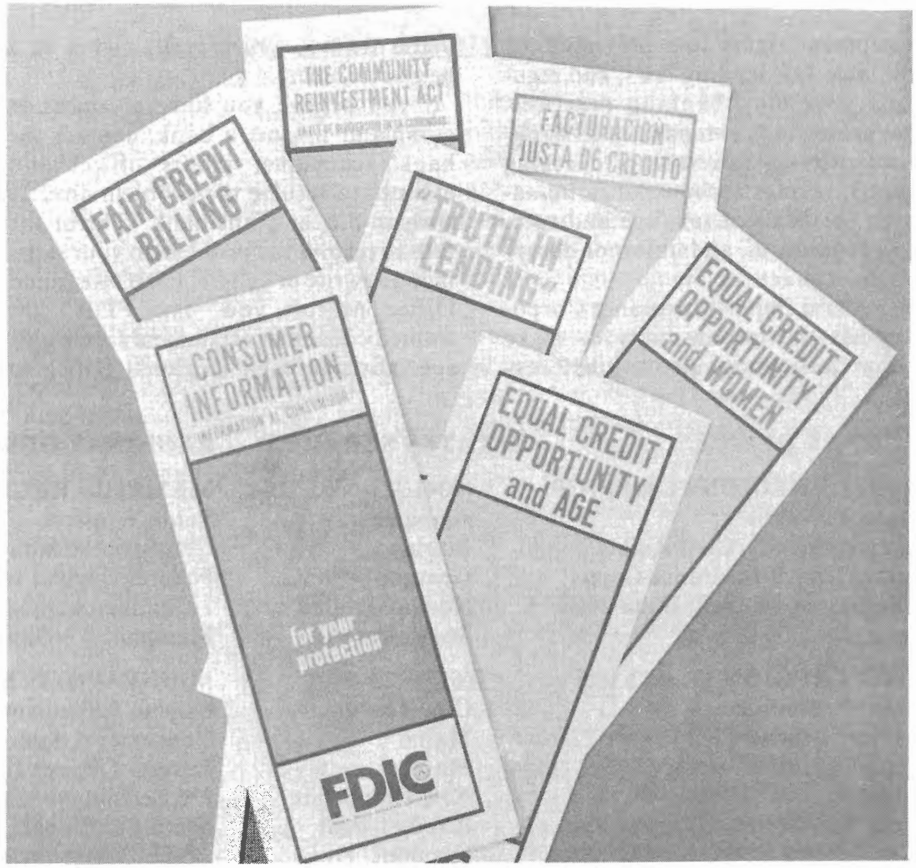
Fair Credit Reporting Act - sets forth an individual's right to obtain information compiled by a consumer reporting agency (credit bureau) and to have inaccurate information corrected or deleted from his or her file; outlines steps to take if credit, insurance or employment is denied because of an inaccurate or unfair consumer report. This pamphlet is in bilingual (English/Spanish) format.

Equal Credit Opportunity and Age - explains the extent to which a creditor can consider an applicant's age in granting or continuing credit. This pamphlet also is available in Spanish.

Consumer Information - cites six consumer protection statutes of importance to bank customers and briefly explains the laws' requirements; contains a detachable form for a customer's use in submitting a complaint, question or suggestion to the FDIC. This pamphlet is in bilingual (English/Spanish) format.

Your Insured Deposit - provides examples in question and answer format of insurance coverage under the FDIC's regulations.

Community Reinvestment Act - explains how banks must meet the credit needs of their communities. The Act prohibits discrimination in lending to middle or low-income groups. This pamphlet is available in English/Spanish.



Los Consumidores Deben Comparar Hasta Conseguir Los Mejores Términos De Crédito

(Cont. from page 2.)

No todas las compañías de préstamos pequeños están sujetas a límites en las tasas de interés y tales límites varían de estado a estado. Los préstamos que las compañías financieras de venta y las compañías de préstamos pequeños ofrecen pueden ser más costosos ya que a menudo son otorgados a clientes de mayor riesgo.

Los préstamos variables son otra forma común de crédito. Bajo el préstamo variable se le extiende una tarjeta de crédito al consumidor. Esta tarjeta contiene un límite de una cantidad máxima predeterminada que el consumidor puede utilizar para tomar prestado para compras del consumidor. Estas tarjetas (Visa, Master Card, etc.) frecuentemente son extendidas por las tiendas por departamento y los bancos. La tasa de interés típica que se debita es 1½ por ciento mensualmente ó 18 por ciento anualmente. Sin embargo, los cargos por intereses se evitan al pagar el balance cuando se recibe cada estado de cuenta.

La ley federal no fija las tasas o le informa al acreedor como calcular los cargos por financiamiento. Sin embargo, la ley requiere que el acreedor le brinde cierta información sobre el costo de crédito. Asegúrese preguntar por una explicación de cualquier término que usted no conozca.

Compare hasta conseguir los mejores términos. Examine los siguientes detalles para comparar y evaluar la tasa que el prestamista le ofrece:

a) la tasa de porcentaje anual
b) el costo total del préstamo en dólares
c) el tiempo que tiene para saldar el préstamo
d) el costo por demorar o extender el plazo del préstamo
e) el costo de los cargos por demora por pagos sobrevencidos
f) el costo de seguro de vida u otro seguro que se le ofrece o que se requiere
g) la cantidad que tiene que pagar todos los meses

Por: Madeleine Rivers

FDIC Regional Offices Offer Aid to Consumers

Consumers' rights are protected by credit laws, fair lending laws, and regulations governing banking practices. These protections extend to such banking activities as advertising, checking accounts, savings accounts, discrimination on the basis of sex, age and race, billing procedures, and unfair or deceptive acts or practices.

The Federal Deposit Insurance Corporation has the responsibility to make sure that the financial institutions it regulates do not violate your rights as a bank customer.

If you believe you have a consumer complaint against a bank, contact the bank's consumer affairs officer and attempt to resolve the problem directly with an officer of the bank. If he or she fails to resolve the problem to your satisfaction, write or call the FDIC Regional Office nearest you. The FDIC has trained consumer affairs and civil rights specialists in each Regional Office to assist you.

When you write to the Regional Office, describe the nature of your complaint, the events in the order in which they happened, the specific dates involved, and the bank's action to which you object. Your inquiries or complaints will receive prompt action from FDIC Regional Offices.

Listed below are FDIC's Regional Offices, their jurisdictions and the person to contact in each.

REGIONAL OFFICE	STATES SERVICED
ATLANTA REGIONAL OFFICE Richard T. Norris Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 233 Peachtree St., N.E. Suite 2400 Atlanta, GA 30043	(404) 221-6631 Alabama Florida Georgia North Carolina South Carolina
BOSTON REGIONAL OFFICE Michael J. Bonfanti Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 60 State St., 17th Floor Boston, MA 02109	(617) 223-6420 Connecticut Maine Massachusetts New Hampshire Rhode Island Vermont
CHICAGO REGIONAL OFFICE Daniel M. Gautsch Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 233 S. Wacker Drive, Suite 6116 Chicago, IL 60606	(312) 353-2600 Illinois Indiana
COLUMBUS REGIONAL OFFICE Dave Moultan Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 1 Nationwide Plaza, Suite 2600 Columbus, OH 43215	(614) 469-7301 Kentucky Ohio West Virginia
DALLAS REGIONAL OFFICE Alan Searsy Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 350 North St. Paul St., Suite 2000 Dallas, TX 75201	(214) 767-5501 Colorado New Mexico Oklahoma Texas
KANSAS CITY REGIONAL OFFICE Kenneth F. Kiefer, Jr. Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 2345 Grand Avenue, Suite 1500 Kansas City, MO 64108	(816) 374-2851 Kansas Missouri
MADISON REGIONAL OFFICE Simona L. Frank Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 1 South Pinckney St., Room 813 Madison, WI 53703	(608) 264-5226 Michigan Wisconsin

REGIONAL OFFICE	STATES SERVICED
MEMPHIS REGIONAL OFFICE Paula Winston Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 1 Commerce Square, Suite 1800 Memphis, TN 38013	(901) 521-3872 Arkansas Louisiana Mississippi Tennessee
MINNEAPOLIS REGIONAL OFFICE Eugene J. Peterson Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 730 Second Avenue So., Suite 266 Minneapolis, MN 55402	(612) 725-6241 Minnesota Montana North Dakota South Dakota Wyoming
NEW YORK REGIONAL OFFICE Alan Haig/Cynthia Lewis Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 345 Park Avenue, 21st Floor New York, NY 10154	(212) 826-4762 New Jersey New York Puerto Rico Virgin Islands
OMAHA REGIONAL OFFICE William C. Keller Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 1700 Farnam St., Suite 1200 Omaha, NE 68102	(402) 221-3311 Iowa Nebraska
PHILADELPHIA REGIONAL OFFICE Robert S. Fanning Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 1900 Market St., Suite 616 Philadelphia, PA 19103	(215) 597-2295 Delaware Maryland Pennsylvania District of Columbia Virginia
SAN FRANCISCO REGIONAL OFFICE Jerry Saylor Consumer Affairs/Civil Rights Federal Deposit Insurance Corp. 44 Montgomery St., Suite 3600 San Francisco, CA 94104	(415) 556-2736 Alaska Arizona California Guam Hawaii Idaho Nevada Oregon Utah Washington

Some Banks Delay Crediting Deposits Until Checks Clear

Some people assume that when banks accept large deposits the funds are immediately available. Banks' policies differ and sometimes the funds are not available immediately upon deposit.

Mr. Smith was a customer of a St. Louis bank for five years. He was in the military and was transferred to Texas. He opened an account in Texas but also kept his St. Louis account active. When Mr. Smith returned to St. Louis he withdrew his money from his Texas account and deposited the money in his St. Louis account. Subsequently, he wrote several checks including a down payment on a house. None of the checks cleared because, without notifying Mr. Smith, the St. Louis bank put a hold on the funds until the deposit check cleared the Texas bank. This bank policy almost ruined his credit record.

FDIC recommends that consumers ask the bank, upon making a large deposit, when the funds will be available. This will alleviate any misunderstandings.

By Kathy True
Consumer Affairs Asst.

Not All Borrowers Need Credit Life Insurance

(Cont. from page 1.)

to require the borrower to buy the insurance from him or from someone he recommends. The borrower has the option of pledging an existing policy or buying coverage elsewhere. However, if the lender requires the insurance, the cost has to be included in the loan's finance charge and reflected in the annual percentage rate.

Q: What disclosures must a lender make under the Truth in Lending Act?

A: Under the Truth in Lending Act, a lender must make certain disclosures to the customer if the cost of non-required credit insurance is to be excluded from the finance charge. For example, in closed-end credit (a loan advanced for a specific time period) the lender must state in the loan contract that credit insurance is optional and not required for the loan. The actual dollar cost of the initial premium must be provided and the borrower must sign a statement indicating the desire to purchase insurance from the lender after receiving these disclosures. If these conditions are met, the cost is excluded from the finance charge and, therefore, not reflected in the annual percentage rate.

Keep in mind the following information when considering credit life, accident and health insurance:

(1) your present life insurance program may be sufficient to pay off all debts and funeral expenses, and provide for any necessary care of dependents and loved ones;

(2) credit insurance may not be necessary if the size of the loan is small enough that the borrower's estate can pay off the loan if the borrower dies;

(3) age, health, and occupation should be considered when deciding to purchase credit life insurance since it carries the same premium rate for all who purchase it;

(4) considering the time and effort required to seek out another insurance plan and the inconvenience of undergoing a physical examination, credit insurance purchased from a lender may be the best or most economical approach to obtaining the protection desired.

By Louise Kotoshirodo
Consumer Affairs Specialist

IF YOU WISH TO BE PLACED ON THE FDIC CONSUMER NEWSLETTER MAILING LIST PLEASE FILL OUT THE FORM BELOW AND MAIL TO: Josie Downey, Editor, Federal Deposit Insurance Corporation, 550 17th St., N.W., Washington, D.C. 20429

2. LISTCODE 0 9

LINE 1 (NAME)

LINE 2 (TITLE)

LINE 3 (ORGANIZATION)

LINE 4 (STREET)

CITY

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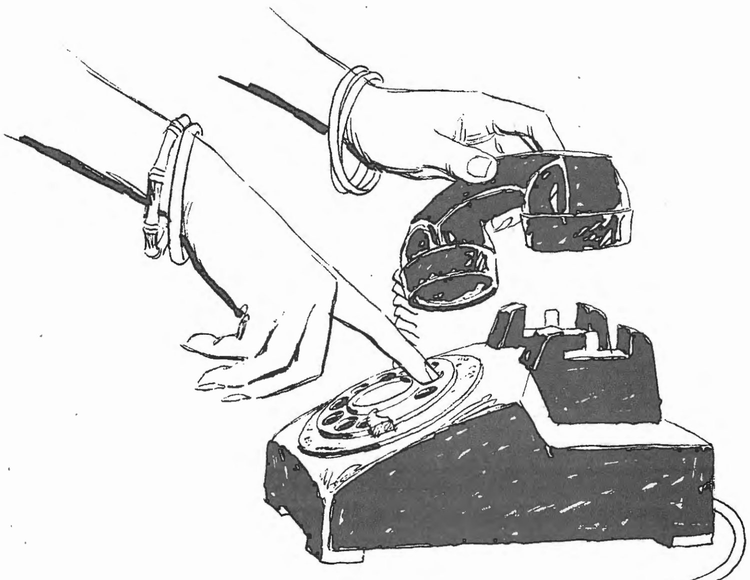
ZIP

The FDIC Consumer Newsletter will be published quarterly instead of monthly. The next issue will be in January 1982.

Questions From Bank Customers



FDIC CONSUMER HOTLINE

— 800-424-5488 —

Q: Can banks refuse to give loans to non-customers?

A: Yes, in periods of tight money, many banks limit their lending to existing customers.

Q: Is it illegal for a bank to send unsolicited Electronic Fund Transfer access cards?

A: No, a bank may distribute EFT (Electronic Fund Transfer) access cards on an unsolicited basis if:

a. the card is not validated;
b. the card is accompanied by a complete disclosure of the consumer's rights and liabilities if it becomes validated;
c. the card is accompanied by a clear explanation that it is not validated and how the consumer may dispose of the card if it is not desired;
d. the card is validated only in response to the consumer's oral or written request or application for validation and after verification of the consumer's identity by any reasonable means, such as by photograph, fingerprint, personal visit or signature comparison.

Q: Does a bank have to pay interest on a mortgage escrow account?

A: Presently only nine states have enacted laws which require the payment of interest on mortgage escrow balances. These states are New Hampshire, New York, Connecticut, Maryland (only on new mortgages), Oregon, California, Minnesota, Massachusetts, and Utah.

Q: What are "All Savers" certificates?

A: All Savers certificates are one year certificates that have an annual investment yield equal to 70 percent of the average investment yield for 52-week U.S. Treasury bills. They have a maturity of one year and can be issued only from October 1, 1981, through December 31, 1982.

Q: What is a truncation program?

A: In a truncation program, a bank retains a customer's cancelled checks and provides the customer with an itemized listing instead. The purpose is to reduce the cost of postage and handling. Copies of cancelled checks may be obtained from the bank usually for a fee.

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