FDIC Consumer News

Summer 2015

From Coupons to Cash Back

Tips on Choosing and Using Bank "Rewards"

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Mobile Banking and Payments: New Uses for Phones…and Even Watches

Mobile banking allows consumers to use their mobile phones to perform transactions they might otherwise conduct from their personal computers or at a bank. Similarly, mobile payments enable consumers to use a mobile device to transfer funds to another person (sometimes referred to as person-to-person, peer-to-peer or "P2P") or to pay for goods or services at retail locations. Here's a look at recent developments in mobile financial services for bank customers.

Mobile banking is popular. A recent survey by the Federal Reserve Board concluded that, as of December 2014, about 81 percent of U.S. banks offered mobile banking services to their customers and that one-third of their customers used these services. The overwhelming percentage of banks offering mobile banking is driven, in part, by the 87 percent of U.S. adults who own a mobile phone, of which 71 percent are smartphones. Also according to the study, 15 percent of online banking customers accessed that service exclusively through their mobile phones.

The survey also showed that the most common use of mobile banking (by 94 percent of consumers who use mobile banking) is to check account balances and recent transactions. In addition, half of mobile banking users have deposited a check by taking a picture of it with their phone.

If you are interested in mobile banking, many financial institutions offer mobile banking applications (apps) that you can download to your phone or have websites that are specially designed to be viewed on a mobile device. Banks and other companies also may offer apps that help consumers more closely manage their finances by keeping track of their spending, purchases and savings.

Mobile payment services can offer convenience and security. "Paying by smartphone can be more secure

than swiping your credit or debit card's magnetic stripe card in the terminal because the merchant never sees your actual card number and all the sensitive payment information is encrypted," said Jeff Kopchik, a Senior Policy Analyst with the FDIC.

Using your smartphone to make purchases at stores or restaurants is generally a two-part process. First, determine if your smartphone has a mobile wallet app you can use to link to one or more payment methods to make payments with your phone. If it does not, download one from your bank's website or other reputable app marketplace. Second, enroll in the service with your bank and specify which credit or debit card will be used to pay for purchases.

To use your mobile phone to pay at a store, place it next to a compatible terminal located on the checkout counter and either enter your personal identification number (PIN) or use the phone's fingerprint reader (if it has one).

For more about using your smartphone to make payments at retail locations, see our Winter 2015 issue (www.fdic.gov/consumers/consumer/news/cnwin15/paybysmartphone.html).

As for person-to-person payments, as long as you and the other party are enrolled in the same P2P service, you can send the money by simply entering the recipient's mobile phone number and the amount you want to transfer.

Simple Steps for Safe Mobile Banking

While mobile banking and payments can be convenient, FDIC Senior Policy Analyst Jeff Kopchik said consumers should always take certain precautions. For example:

- Make sure that access to your mobile phone is protected by a personal identification number (PIN) in case the phone is lost or stolen;
- Only download mobile banking and payment apps from your bank's website or another reputable app marketplace;
- Consider installing anti-malware software on your phone. Your bank may provide this software for free;
- Monitor your transactions regularly so that you can spot and report fraud to your bank right away;
- Before using a mobile device to connect with your bank from a public area, such as a coffee shop or an airport, always check to make sure that you are connecting using your cellular service and not an unsecured public Wi-Fi network; and
- Contact your bank with any questions you have before you sign up to use mobile banking or payments.

"P2P can be much more convenient than trying to find an ATM in your bank's network that doesn't charge fees for withdrawing cash," said Elizabeth Khalil, a Senior Policy Analyst with the FDIC's Division of Depositor and Consumer Protection.

Before using any P2P service, also make sure you understand whether any fees will be charged.

High-tech wristwatches are becoming fashionable for some bank customers. A few large banks have created financial apps for smartwatches that allow their customers to read messages from the institution or access basic services by just glancing at their wrist. "For example, a smartwatch could send you an alert if you are nearing the

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At the ATM: 10 Ways to Minimize Fees and Maximize Security

Many depositors who need cash often turn to automated teller machines (ATMs) because of the convenience. But that convenience can come with costs. Here are 10 things to keep in mind at the ATM so that the cash coming out of your account goes into your pocket.

1. Know which ATMs you can use for free. For many people, the availability and cost of ATMs are big reasons why they choose one bank over another. Generally, you can use your own financial institution's ATMs without incurring fees. Your institution may also be part of a larger, no-fee ATM network. Talk to a bank representative to learn more or visit your institution's website to search for its ATMs.

2. If you cannot use a fee-free ATM in your bank's network, know that fees can vary. By law, the fee that the operator of an ATM may charge for a withdrawal or other transaction must be disclosed on the screen of the machine or on a printout so that you can cancel the transaction before paying any fees. These charges can vary widely, so consider finding another ATM if the fee is larger than you expect. In addition to incurring fees from the ATM operator, you may be charged a fee by your bank for using a machine that's not within its ATM network.

3. Consider other ways to keep ATM fees down. If you anticipate needing cash for multiple reasons, withdrawing more money at one time (such as $100 or $200 instead of $20 or $40) can mean fewer trips to the ATM and savings on transaction fees. Using your debit card to get "cash back" from a merchant at checkout (such as a grocery store) for no fee is another option. While the amounts may seem small, reducing or eliminating ATM fees can result in significant savings over time.

4. Guard against overdrafts, which can be costly. Overdrafts can occur if you withdraw more money than you have available in your account or if the new balance in your account won't be enough to cover a future, pre-arranged withdrawal, such as a payment for a recurring utility bill. You can avoid overdrafts by keeping an up-to-date record of your account balance and the scheduled transactions to come. "Something as simple as a paper-based log or an app on a smartphone can help," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section.

Also note that under federal rules, if you "opt in" to an overdraft program, the bank can charge you a fee to process an ATM or everyday debit card transaction that exceeds your account balance. For more about those rules and changes that may be coming, go to the Consumer Financial Protection Bureau's website at www.consumerfinance.gov. Also see consumer tips on avoiding overdraft fees at the ATM and the cash register in the FDIC brochure "Your Guide to Preventing and Managing Overdraft Fees," which is online at www.fdic.gov/consumers/overdraft.

5. See if your bank's ATMs have new features that can be helpful to you. For example, some institutions allow consumers to use an app on their smartphone to withdraw cash at an ATM without using an ATM/debit card. Some banks enable customers who have questions to speak with a teller through an ATM. You also may be able to have an ATM receipt e-mailed to you instead of getting a paper copy.

6. Keep personal safety in mind. ATM manufacturers and owners, including financial institutions, go to great lengths to prevent robberies and fraud at cash dispensing machine. But even so, you need to be careful. Be aware of your surroundings, particularly if there is anything suspicious, such as a broken light or someone loitering nearby. Have your card in your hand as you approach the ATM. And, if you withdraw cash, put it away promptly. The time for counting your money can come later in private.

7. Walk away if you notice something suspicious at the

machine. The FBI recommends inspecting the ATM for anything that looks unusual, such as scratches or tape near where your card would go. Those could indicate fraudulent recording devices have been attached to the ATM for "skimming" or gathering information from the magnetic strip on the back of the card. For similar purposes, fraudsters also use transparent overlays on ATM keypads that can record keystrokes and tiny cameras that are focused on where ATM users enter their personal identification numbers (PINs).

8. Take precautions with your ATM cards. Know where your current cards are and keep them safe. "Also make sure to destroy old or expired ATM cards. If your debit or ATM card falls into the wrong hands, someone could try to create a counterfeit or use the information on the card to fraudulently order a new one from your bank," said Michael Benardo, Manager of the FDIC's Cyber Fraud and Financial Crimes Section. "Be sure to cut through the account number and magnetic strip before throwing the pieces in the trash."

Also keep in mind that banks are increasingly replacing credit and debit/ATM cards with new cards with computer chips that can better protect against fraud. Learn more about chip cards at www.fdic.gov/consumers/consumer/news/cnsum14/chipcards.html.

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From Coupons to Cash Back: Our Latest Tips on Choosing and Using Bank "Rewards"

Bank rewards programs tied to credit or debit cards or other products can provide you with appealing offers for things such as points to be used for travel and shopping or cash added to your account. But finding great deals is only half of the equation.

"It's important for consumers to understand that to make the most of any rewards program, they need to make sure that they do not overlook other, more important account features in addition to the rewards," said Susan Boenau, Chief of the FDIC's Consumer Affairs Section.

Before jumping into any rewards program, consider these tips for maximizing the potential benefits and minimizing mistakes.

Comparison shop different rewards programs, including their fees and other costs, before deciding to apply for one. One credit card or deposit account might offer seemingly terrific rewards but also charge fees that may negate the rewards. So it's important to take a look at other products (such as a rewards card without an annual fee) and weigh the costs and benefits of each one.

Choose a rewards program that fits your lifestyle. The best way to maximize benefits and avoid spending problems is to choose a program that rewards you for purchases or deposits you would make even without the gifts.

"You may want to think about rewards programs in terms of reaching your goals, because each one has different features," Boenau added. "For example, if you are planning a vacation, then a credit card offering a lot of points for airfare and hotel costs may appeal to you. But if the card also has a high interest rate and you plan to carry a balance, you may find another credit card offering a lower interest rate may be a better deal overall."

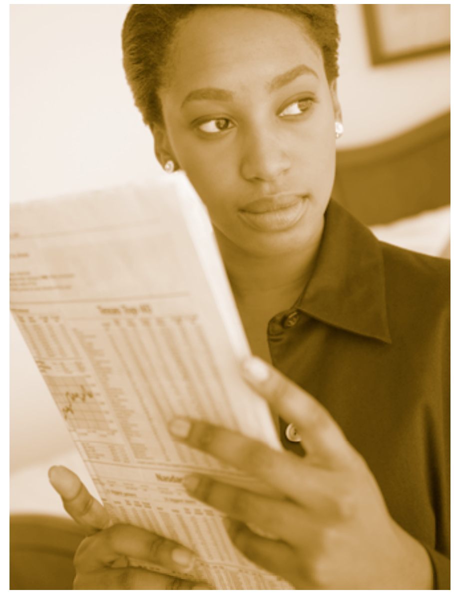
Also look for credit cards and other bank products that provide rewards tailored to consumers at particular stages in their lives. For instance, some credit cards allow consumers to automatically deposit cash-back rewards into a college savings account, and certain banks have bonus (above market) interest rates on deposit accounts and rebates on ATM fees for senior citizens and students.

Remember what it takes to earn rewards. Many credit cards provide rewards when you use them to make purchases, but it's important to know exactly how much you can earn. For example, a card issuer may offer 5 percent cash back on groceries, but the fine print may say that reward is available only on the first $1,000 spent each year. Likewise, while some banks offer sign-up bonuses for simply obtaining a card, others may require you to charge a certain amount of money to the card within the first few months.

In addition, some card issuers offer specials that double or triple rewards for purchases in certain categories. "These specials change from time to time, so be on the lookout for opportunities to increase your rewards earnings by signing up for alerts or checking your card issuer's website," said Heather St. Germain, a Senior Consumer Affairs Specialist at the FDIC.

While rewards can be beneficial, don't spend just to earn rewards. A recent Federal Reserve Bank of Chicago report noted that overall spending and debt accumulation may increase slightly among consumers who use a rewards credit card. "Make sure you're not spending just to earn a small rebate," St. Germain advised. "Use the card for purchases you would typically make, and try to pay your account balance in full each month so you can avoid interest charges."

Check your account regularly to make sure you receive your rewards. A mistake or a coding error



by a merchant may result in you failing to receive the full rewards amount you're due.

Understand how you may lose access to rewards. Consumers focus on the potential rewards they may earn but can forget that it is possible to earn rewards and lose them. Here are some examples involving credit cards:

• If a cardholder misses a payment on a monthly credit card bill, some card issuers will take back the rewards earned during that month;

• Some card issuers place expiration dates on using rewards, which may be an unpleasant surprise if you plan to save rewards over a period of time; and

• Card issuers may require customers to spend a minimum amount on the card to continue to earn rewards or keep the rewards they've already earned.

Also be aware that card issuers may reserve the right to change the terms of their rewards programs or cancel the programs at any time.

Manage your credit and debit cards. Any rewards you receive can become worthless if you allow fees or other penalties to pile up. So try to pay your credit card bill on time and in full each month to avoid interest charges and late fees. And when using your debit card, be careful to not overdraw your

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Establishing or Rebuilding Credit Scores: Options for Moving Forward

Your credit scores are prepared by FICO and other companies and are mainly based on your history of managing debts, such as whether you tend to make payments on time. Your scores play a significant role in your everyday life because the next time you apply for a loan or a credit card — or perhaps a new apartment or insurance — your scores could affect the final decision, including your costs.

For the many consumers with damaged credit scores and those with no credit record, here are some ways to improve your credit scores.

Consider consulting with a reputable credit counseling service. It can help you develop a customized plan to improve your credit score, which may include helping you decide how to prioritize your spending choices. Counseling services are available to help consumers budget money, pay bills and develop a plan to improve their credit histories.

Bear in mind, however, that not all counselors are looking out for the consumer's best interests. Be cautious of counseling services that advise you to stop making payments to your creditors or to make your payments to the counselors instead (so they can negotiate on your behalf with the lender). These programs can be costly, may result in your credit score becoming even worse, and they could be scams.

For suggestions on finding a reputable counseling service, visit the Federal Trade Commission website at www.consumer.ftc.gov/articles/0153-choosing-credit-counselor.

Understand what information is most likely to influence your credit scores. In general, the most significant factor affecting your score is whether you repay debts on time. Also important is how much you currently owe on each account compared to its original loan amount or credit limit. Additional factors include how long you have had your current loans and credit cards and the types of credit accounts you have (for example, managing both a credit card and an installment loan, such as for a car, could be viewed more favorably than just having one of those two loans).

Obtain and review a copy of your free credit report. Credit reports, produced by credit bureaus, detail each person's financial history, and they are used to develop credit scores. Under federal law, you can get at least one free report from each of the nationwide credit bureaus every 12 months. If you find an error, contact the credit bureau directly and correct the record.

To order your free annual report from the three major credit bureaus — Equifax, Experian and TransUnion — visit www.AnnualCreditReport.com or call toll-free 1-877-322-8228.

For information on your right to see and correct reports from "specialty" credit bureaus that, for example, track a person's history of handling a checking account, visit the Consumer Financial Protection Bureau website at www.consumerfinance.gov/blog/you-have-a-right-to-see-specialty-consumer-reports-too.

If you cannot qualify for a regular credit card, consider a no-fee or low-fee secured credit card. This is a credit card for which you would keep money (as collateral) in a deposit account at the financial institution issuing the card.

For example, if you want a card with a $1,000 limit, you might deposit that amount into a savings account at the bank offering you the card. The lender would report how you manage the card to one or more of the credit bureaus, and often it will provide you the opportunity to obtain an unsecured credit card after a certain period of on-time payments.

Secured cards may have fees attached to them and may have a higher interest rate, so be sure to do your homework before signing up.

Look into having a co-signer if you have no credit history. A family member or friend guaranteeing payment may help you obtain a loan. It is usually structured so that the primary borrower is expected to make the payment but the payment history will be reported in both names. Your co-signer will need to know that if you default on the loan, he or she will be responsible for repaying it in full, and missed payments will be reflected on both credit files.

Consider taking out a small loan. A personal loan from a depository institution can help you establish credit. You may be asked to offer collateral to secure your loan.

Be Patient. "Whether you have been through a foreclosure, bankruptcy, divorce or made mistakes with your finances, the road to recovery is possible," said Angelisa Harris, an FDIC Regional Community Affairs Manager. "The key is to be focused and understand which steps will be helpful in rebuilding your credit based on your specific situation. You won't be able to rebuild credit overnight."

She added that "arming yourself with knowledge, obtaining advice from a reputable organization, and creating a plan can help you make significant strides toward improving your credit rating."

For more tips and information, read the Federal Trade Commission's publication "Building a Better Credit Report" (www.consumer.ftc.gov/blog/building-better-credit-report-20).

Credit reports detail each person's financial history and they are used to develop credit scores. Under federal law, you can get at least one free report from each of the nationwide credit bureaus every 12 months. If you find an error, contact the credit bureau directly.

A Forward Look at Reverse Mortgages

Every day, approximately 10,000 people in the United States turn age 62, according to the Census Bureau. And if they are homeowners, they may be eligible to borrow against a portion of the equity in their house by using a loan called a "reverse mortgage." Unlike a traditional mortgage, for which the borrower makes payments to the lender, with a reverse mortgage the lender pays the borrower the money requested and does not expect to be repaid until after the borrower no longer lives in the home. But as FDIC Counsel Richard Schwartz noted, "While a reverse mortgage can be used to supplement monthly income, obtain lump-sum cash or otherwise help a senior citizen 'age in place,' some borrowers may face unintended obstacles and consequences, especially if they no longer have the ability to pay taxes or property insurance."

FDIC Consumer News last reported on reverse mortgages in our Summer 2013 issue (www.fdic.gov/consumers/consumer/news/cnsum13/borrowing-from-your-home.html). Here is an update with a couple of new developments.

New rules from HUD add protections for certain surviving spouses after the death of a reverse mortgage borrower. The most popular reverse mortgage program is the Home Equity Conversion Mortgage (HECM), which is insured by the U.S. Department of Housing and Urban Development (HUD). Until recently, if the non-borrowing spouse was not on the loan, he or she was not entitled to remain in the property following the death of the borrower. But under HUD's new rules, a non-borrowing, surviving spouse can remain in the home if specific conditions are met. These changes apply to reverse mortgage loans in which the borrowing spouse applied for a reverse mortgage before August 2014. In addition, the couple must have resided in the property as their principal residence throughout the duration of the HECM, and taxes, property insurance and any other special assessments that may be required by local or state law must have been paid.

The concern regarding non-borrowing spouses has been the source of many reverse mortgage issues. Here's why: The amount of money a reverse mortgage borrower can draw is based in part on the age of the *youngest* borrower — and unless all borrowers are 62 or over, they would not qualify for a reverse mortgage.

"Many borrowers who opted to exclude the younger spouse from the loan in order to qualify for a HECM did so with the hope that when the younger occupant became 62 they could refinance and add the spouse," said Andrea Riche, an FDIC program manager who oversees reverse mortgage issues. "But when home prices nationwide dropped in 2007 and 2008, the possibility of refinancing into another HECM was eliminated. And if the borrowing spouse passed away, HUD or the private lender became entitled to take possession of the home and the surviving spouse was almost always evicted. But now, HUD provides a mechanism for an eligible non-borrowing spouse to stay in the home."

The Consumer Financial Protection Bureau (CFPB) is warning consumers about potentially misleading reverse mortgage advertising. In June 2015, the CFPB issued a consumer advisory saying that many television, radio, print and Internet advertisements for reverse mortgages had "incomplete and inaccurate statements used to describe the loans. In addition, most of the important loan requirements were often buried in fine print if they were even mentioned at all. These advertisements may leave older homeowners with the false impression that reverse mortgage loans are a risk-free solution to financial gaps in retirement."

For example, the CFPB said, "After looking at a variety of ads, many homeowners we spoke to didn't realize reverse mortgage loans need to be repaid." To learn more and for tips, such as the value of developing a financial

plan, go to www.consumerfinance.gov/blog/consumer-advisory-dont-be-misled-by-reverse-mortgage-advertising.

Before you decide to get a reverse mortgage of any kind, talk to a qualified professional. You can find HUD-approved HECM Counseling Agencies near you by accessing https://entp.hud.gov/idapp/html/hecm_agency_look.cfm or calling 1-800-569-4287. The Federal Trade Commission also has a website on determining whether a reverse mortgage is a good product for you and links to additional information at www.consumer.ftc.gov/blog/reverse-mortgage-right-you.

New Date for Mortgage Disclosure Rule

The Consumer Financial Protection Bureau (CFPB) has announced that its new rule intended to improve the disclosure of mortgage costs to loan applicants will now take effect on October 3, 2015. The agency's "Know Before You Owe" rule was originally set to take effect on August 1, 2015. The rule, which requires more user-friendly disclosure forms that clearly lay out the terms of a mortgage for a homebuyer, implements a provision of the 2010 Dodd-Frank financial reform law. For more information about the new disclosures, go to www.consumerfinance.gov/knowbeforeyouowe.

Dear FDIC: More Answers to Consumer Questions About Deposit Insurance

The FDIC is known to generations of consumers for protecting deposits in banks and savings institutions. More importantly, no depositor has ever lost a penny of insured deposits at an FDIC-insured institution. FDIC staff answer more than 20,000 questions each year from depositors and bankers who ask about the deposit insurance rules to ensure that accounts are correctly structured and the money is fully insured. Here are answers to two commonly asked questions we believe ***FDIC Consumer News*** readers will find useful.

I understood that the basic FDIC deposit insurance coverage is $250,000 for each account, but a friend said the basic coverage is $250,000 for each depositor at each bank. Who is correct?

Your friend is correct. In determining deposit insurance coverage, the FDIC will add together all the deposits an individual has at a bank in each of several "ownership categories" — such as single accounts, joint accounts, and certain retirement accounts — and insures that person's total deposits in each category up to at least $250,000.

I am elderly and I have a revocable living trust that names my three children as beneficiaries. All three children live far away from me, but I have a niece who lives nearby and comes to check on me. I would like to leave her some money when I pass away, but I would like to have the use of the money until then. What might be a good option?

You could establish a payable-on-death account, also commonly known as a "POD" account, that would be owned by you and that would name your niece as beneficiary when you die. While you are alive, you — and not your niece — would have full ownership and use of the money. And under the FDIC's rules, the deposits in the POD account (which is a type of revocable trust account) would be separately insured for up to $250,000 from the deposits in your revocable living trust because there are different beneficiaries.

You can learn more about FDIC deposit insurance coverage by calling us at 1-877-ASK FDIC (1-877-275-3342). For the hearing-impaired, please call 1-800-925-4618. Also visit the FDIC online at www.fdic.gov/deposit/deposits for more information on deposit insurance, including publications, videos, our interactive Electronic Deposit Insurance Estimator (EDIE), and BankFind (a tool for determining if your bank is FDIC-insured).

At the ATM

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9. Protect your PINs. Memorize your PIN and never write it on your ATM card or on a piece of paper in your wallet. Don't share your PIN with anyone who isn't a co-owner of the account. And, when you enter your PIN, block the keypad with your other.

10. Immediately report a lost or stolen card or anything else that could be a warning sign of a problem. "Promptly notify your bank if you misplace your card or if you spot an unauthorized ATM or debit card transaction on your account," Benardo recommended. "The faster you report a problem, the greater your federal protections are" under the Electronic Fund Transfer Act.

Benardo also said to never respond to unsolicited requests for your bank account number and the PIN for your debit/ATM card. And, be sure to report anything dangerous or suspicious you see at an ATM to the police or the bank that owns the machine.

As you can see, there's a lot to consider about choosing and using ATMs. You may also want to ask a customer service representative at your bank for other practical suggestions.

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Mobile Banking

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credit limit on your credit card or you are close to overdrawing your checking account," said Khalil.

The watch's tiny screen size poses some challenges to creating financial apps for the device. But, to date, several banks have publicized that they allow customers to authorize a banking transaction using a smartwatch instead of the mobile phone itself.

The integration of mobile payments with other smartphone apps can add convenience in additional ways. "Let's say you make a dinner reservation at a restaurant using an app on your mobile phone," Kopchik explained. "If the reservation app is integrated with a mobile payment app, the final bill will be sent to your phone and you can authorize the payment while sitting at your table. There is no need to give the waiter a credit card and pay the old-fashioned way."

Some mobile payment apps also coordinate with customer loyalty programs, meaning that you may earn points or discounts for dining at certain restaurants or paying with a certain app (see the next column). 🏛

Bank Rewards

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account or make other transactions that could rack up costly fees, such as when using an ATM not affiliated with your bank (see Page 3).

Be wary of signing up for too many rewards programs. Some consumers take on many rewards cards, either because they see a reward that is too enticing to pass by or they're trying to build as many rewards as possible. However, using several cards may sometimes reduce your rewards. For example, if your purchases are spread out among multiple cards, it may be difficult to accumulate enough purchases on one card to acquire rewards. Be sure to look strategically at the cards you have before making a decision to apply for another one.

Using mobile banking services for purchases may also get you rewards. Some banks have relationships with specific retailers that provide customers with extra rewards when they shop with that merchant and pay with the bank's credit or debit card. And with a mobile banking application (app) on their phone, consumers also can access those rewards while they're shopping.

At the same time, be certain you understand how each mobile rewards program works. "One issue to keep in mind is how your personal information will be collected, stored and used," cautioned Elizabeth Khalil, a Senior Policy Analyst at the FDIC. "For location-based offers, you will need to allow the app to access your location through your smartphone. No matter the type of mobile rewards program, be sure you understand what you're signing up for and that you are comfortable with it."

For more tips on choosing the right accounts (with or without rewards) and managing them effectively, see the Winter 2013/2014 ***FDIC Consumer News*** article on credit cards (www.fdic.gov/consumers/consumer/news/cnwin1314/creditcards.html) and our Spring 2014 story on checking accounts (www.fdic.gov/consumers/consumer/news/cnspr14/checking.html). 🏛