Our 20th Anniversary

FDIC Consumer News

FALL 2013

More About Mortgages

New Rules Borrowers Should Know About and Tips for Avoiding Scams

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Coming Soon: New Mortgage Rules Borrowers Should Know About

Aimed at preventing payment problems and home foreclosures

Attention mortgage shoppers: Important new rules are taking effect soon that will protect consumers from risky mortgages and help borrowers better manage a home loan.

The rules from the Consumer Financial Protection Bureau (CFPB), which will implement provisions of the 2010 Dodd-Frank financial reform law, address concerns about the mortgage lending process that resulted in some borrowers facing payment problems and home foreclosures in the recent financial crisis. In particular, the new rules are meant to ensure that consumers are not encouraged by a lender or loan broker to take a mortgage that they don't have the ability to repay. Other provisions in the rules will help consumers do a better job of protecting themselves.

"The CFPB's mortgage-related rulemakings will set the stage for the mortgage-lending process in the future," said Jonathan Miller, Deputy Director in the FDIC's Division of Depositor and Consumer Protection.

FDIC Consumer News previously reported on some of the coming changes, but here is a closer look at the new rules plus practical tips for mortgage shoppers and borrowers. Note: The rules will take effect on January 10, 2014, unless otherwise noted.

Loan Originator Compensation

One rule governs the compensation of loan originators — including loan officers and mortgage brokers — to promote responsible behavior by these professionals.

"The compensation rule is intended to prevent loan originators from steering consumers toward unnecessarily expensive loans because the originator would get paid more for doing so," said Glenn Gimble, a Senior Policy Analyst at the FDIC. "For instance, the lender cannot pay a broker or loan officer more just because the loan has a high interest rate or the consumer agrees to buy a product, such as title insurance, from one of the lender's affiliates."

Financial institutions and other organizations also will be required to ensure that their loan originators are licensed or registered under existing state or federal laws. For loan originators who are not required to be licensed and are *not* licensed, employers must obtain criminal background checks from a law enforcement agency, get a credit report, and check for other information about possible misconduct (such as civil lawsuits involving fraud). Employers also must provide periodic training to such loan originators to make sure they understand the legal protections and requirements that apply to loans they originate.

The loan originator compensation rule, including the qualification and training requirements, will become effective on January 1, 2014, except for two provisions that will start on January 10, 2014. Those are a prohibition on financing credit insurance in connection with any residential mortgage loan, and a requirement that the loan originator's name and unique "identifier" be provided on certain loan documents.

Practical Tip: "The new rule will help ensure that consumers are not steered into costly or inappropriate mortgage loans, but consumers also have a responsibility to learn about the different kinds of mortgages and shop around," said Sherry Betancourt, a Senior Attorney in the FDIC's Legal Division. "Comparing the mortgages offered by various lenders and asking questions can help you get the best deal for your needs."

Escrow Requirements

An "escrow" account is commonly set up when a borrower gets a mortgage. And, it is funded by money from the loan payment. The mortgage servicer — the company that collects a borrower's mortgage payments and otherwise helps manage a lender's home loans — will use money in the account to pay for items such as real estate taxes and homeowner (hazard) insurance.

Under the CFPB rule that became effective on June 1, 2013, certain lenders must establish an escrow account for a borrower of a "higher-priced mortgage loan" (one that exceeds a specified Annual Percentage Rate or "APR") for at least five years, up from one year under previous regulations.

"The new escrow rule is intended to make sure that borrowers can meet their ongoing mortgage-related expenses, including taxes and insurance," said Gimble.

The rule applies to higher-priced mortgage loans secured by a first lien on a principal dwelling (i.e., these are not home-equity type "second" mortgages or loans secured by vacation or other second homes). After five years, the borrower could request that the escrow account be cancelled under certain circumstances, though most borrowers typically retain escrows for the life of the loan.

Practical Tip: "Even if you're not required to use an escrow account, it is almost always a good idea to have one," Gimble said. "For many consumers there are benefits to knowing that their property taxes, and perhaps also their homeowners' insurance, will be paid for over the course of a year instead of in big annual or semi-annual payments."

Ability to Repay

New underwriting standards have been added that, for most mortgages, generally require lenders to make a "reasonable and good-faith determination" that an applicant has a "reasonable ability to repay the loan."

This rule outlines several factors that lenders must consider before approving a mortgage, such as the consumer's income or assets, employment, and other ongoing debt obligations such as child-support payments. Loan applicants also will have to supply financial information and lenders will have to verify it.

The new underwriting standards are designed to protect consumers from certain risky loan features that allow borrowers to take out mortgages they cannot afford. These loans include those with payments that start low but go up significantly in the future, perhaps to levels beyond what the borrower can afford. Examples are loans that can have periods when the borrower only pays the interest due or less than the interest due. The latter can result in "negative amortization," where the amount you owe actually increases over time.

Practical Tips: "Ask a lender how it will assess your ability to repay, so that you will have an idea of how the lender may evaluate your application, and think carefully about how much debt you can comfortably take on," said Cassandra Duhaney, a Senior Policy Analyst at the FDIC. "Knowing how your ability to repay will be measured may also help you understand what steps you could to take to strengthen your application, such as by saving up more money or improving your credit score."

Rules for Mortgage Servicers

The CFPB's mortgage servicing rules are intended, in part, to give borrowers more information from their mortgage servicer, especially if they are having problems making loan payments.

Among other things, consumers with adjustable-rate mortgages will receive earlier advance notice of changes in their loan payments when the interest rate changes. And, certain loan servicers will be required to provide borrowers who are behind on their payments with a written notice of their options for avoiding foreclosure, if appropriate.

Practical Tip: Watch for communications from your mortgage servicer in order to remain informed about important dates or response deadlines associated with your loan. Also, for borrowers having trouble paying their mortgage, the CFPB provides information at www.consumerfinance.gov/mortgagehelp.

High-Cost Mortgages and Homeownership Counseling

A different rule will apply to what are called "high-cost mortgages," which are loans with high "points" and other fees, a high APR, or certain prepayment penalties. (Points are one type of fee paid at closing by the borrower to the mortgage lender. Each point equals one percent of the loan amount.)

Because these loans are typically offered to consumers with relatively low credit scores, lenders tend to view these applicants as riskier candidates for a loan. To protect consumers before they agree to this type of high-cost mortgage, the new rule will require the lender to disclose certain cost information.

Additionally, high-cost mortgages cannot contain certain loan features that are considered abusive, such as prepayment penalties. A borrower also must receive homeownership counseling before receiving a high-cost mortgage. Some loans that are not considered to have the same risk of abuse — such as loans originated by a government housing finance agency — are not covered by the rule.

One provision of the new rule that is unrelated to high-cost mortgages will require homeownership counseling for first-time homebuyers who are considering a loan that allows for negative amortization. And, the rule mandates that every applicant for a mortgage receive a list of homeownership counseling organizations within three days of applying for a mortgage loan.

In particular, the new rules are meant to ensure that consumers are not encouraged by a lender or loan broker to take a mortgage that they don't have the ability to repay.

Practical Tips: "When you are applying for a mortgage loan and your lender provides a list of homeownership counseling organizations, consider this an opportunity to learn about the home-buying process from an informed, objective source. This new disclosure is one of the important consumer protections in the Dodd-Frank Act," Duhaney said. "In fact, home ownership counseling is something that many consumers may want to consider *before* they apply for a mortgage loan or shop for a home."

For more information about the new rules, visit the CFPB website at www.consumerfinance.gov and search by topic. If you have a question about the new rules, you may send an e-mail to CFPB_reginquiries@cfpb.gov or call 1-202-435-7700. For more information on buying a home, visit www.mymoney.gov.

Protect Yourself From Mortgage Scams

Let's say you are a homeowner in financial distress and at risk of losing your home. You may also have heard that the government is requiring mortgage servicers to mail offers of assistance to borrowers who are behind in their payments. Then, an official-looking letter arrives "guaranteeing" to save your home by accessing new kinds of "federal" loans.

Or, you would like to lower your housing costs and you receive an e-mail, text message or phone call promising a very low interest rate. All you have to do to get started is provide some personal financial information.

Do these deals sound good ... or are they too good to be true?

FDIC Consumer News wants to remind you to watch out for scammers who falsely claim to be lenders, loan servicers, financial counselors, mortgage consultants, loan brokers or representatives of government agencies who can help with your mortgage. "These criminals attempt to enrich themselves by preying on vulnerable, desperate homeowners," said Ron Jauregui, an FDIC Community Affairs Specialist. "If you suspect that you have been targeted by a mortgage scammer, you can protect yourself and your community by reporting it to the appropriate authorities."

Here are common warning signs of fraudulent offers of mortgage assistance, plus key points to remember:

• **You must pay a fee to be "guaranteed" a foreclosure rescue or loan modification.** No one can guarantee in advance that a mortgage assistance application will be approved. Also, collecting upfront fees, supposedly to cover processing or administrative costs, is questionable and, depending on the circumstances, may be illegal. If you pay the money, chances are you will never see it again and you will not get the promised services.

• **The company claims that it is approved by or affiliated with the government.** "Mortgage crooks like to fool people by presenting fake letters and e-mails that look official or other offers that seem to present fast and easy solutions," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. "They also may imply that they have been approved by the federal government. When in doubt about an offer, contact your loan servicer — the company that collects the monthly payment for your mortgage, property taxes and insurance — to find out if you may qualify for any programs to prevent foreclosure or modify your loan without having to pay a fee."

• **You receive an unsolicited request to divulge personal financial information.** Never provide personal information in response to an unsolicited text message, e-mail, call or letter asking you for personal information. Many people think that as long as they don't share their Social Security number they won't be victimized. But other information — like your date of birth, loan balance, loan number or other account numbers — may be enough for a scammer to commit fraud or theft.

• **You are pressured to sign over the title to your home or approve documents that you haven't had time to read.** Predators will say you must act fast to save your home. That may include quickly signing documents, including the title or deed to your home, to be eligible for their mortgage assistance. But if you comply, you may be giving them ownership of your home. You never need to give up ownership of your home to obtain an authentic mortgage modification.

"Scammers rely on distressed homeowners to trust people offering solutions that sound easy or effective," said Paul Horwitz, an FDIC Community Affairs Specialist. "If you're having trouble paying your mortgage, don't communicate with third parties that contact you. Instead, talk to your lender, perhaps after first consulting a trained professional at a reputable counseling agency that will provide free or low-cost help."

For a referral to a nearby housing counseling agency approved by the U.S. Department of Housing and Urban Development (HUD), a good place to start is the Consumer Financial Protection Bureau (call 1-855-411-2372 or go to www.consumerfinance.gov/find-a-housing-counselor).

• **You are told to stop paying your mortgage lender and start paying your new "helpers."** The con artist may claim that, to qualify for a mortgage modification, you need to stop paying your lender. Withholding a payment to your lender might sound appealing, but doing so can make matters worse, including further damage to your credit. Also, keep in mind that any money you give to a fraudulent third party will likely disappear. Discuss issues such as these with a HUD-approved housing counselor when evaluating the options for a legitimate loan modification.

Final Thoughts

Be wary of unsolicited offers by third parties, especially if they relate to your home. "The best defense for fighting mortgage scams is to know the signs of fraud and err on the side of caution," advised April Richardson, a Counsel in the FDIC's Financial Crimes Unit.

For more information about avoiding and reporting a variety of mortgage scams, not just those involving loan modifications, start at www.stopfraud.gov/protect-mortgage.html, which features tips from government agencies and NeighborWorks® America.

For More About Mortgages

The FDIC's website has tips for picking a mortgage, ***FDIC Consumer News*** articles, and other information about home loans. Start at www.fdic.gov/consumers/loans.

The Consumer Financial Protection Bureau answers commonly asked questions at www.consumerfinance.gov/askcfpb.

Mymoney.gov has additional tips on home ownership and mortgages. Start at www.mymoney.gov.

You've Been Turned Down for a Checking or Savings Account. Now What?

You go to a financial institution to open a checking or savings account and a representative says you aren't eligible. Why? Because a report shows that an institution previously closed your checking account, perhaps because of unpaid overdrafts.

Can the institution deny you a new account for that reason? What are your options for getting a new account? And, what if the negative information being reported about you is wrong?

By law, certain "consumer reporting" companies can collect information from banks and credit unions on aspects relating to a consumer's checking account, such as the reasons an account was closed. These companies are similar to credit bureaus that track how consumers pay their bills and other debts.

Under the Fair Credit Reporting Act (FCRA), a checking account closed by an institution because of mismanagement, and most other negative information, can continue to appear in these reports for up to seven years. When a consumer wants to open a new deposit account, the institution may access such a report.

And just as a negative credit report can hurt your ability to borrow from a financial institution, a checking account history that shows a closed account can hurt your ability to open a new account. (An institution you are seeking to do business with also may access your credit score, which is based on your credit history, in deciding whether to open a new checking or savings account.)

"While consumers have generally become more aware of the importance of credit scores and credit reports, relatively few have thought about the services that report on their bank account activity," noted Keith Ernst, an Associate Director of the FDIC's Division of Depositor and Consumer Protection in charge of consumer research. "So, when people are denied the opportunity to open a new deposit account, often they are surprised to learn that negative information about a past checking account can be shared."

Here are suggestions if you are unable to open a new account.

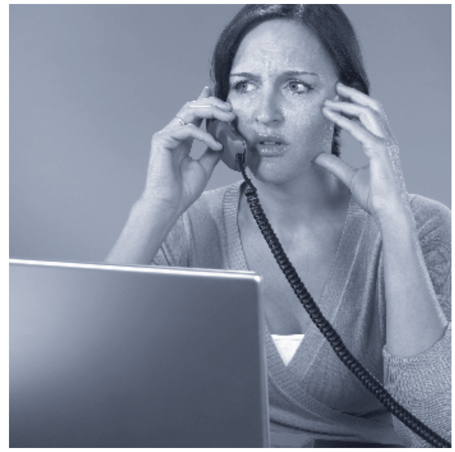
Ask the institution to reconsider its denial of a new account. "Every bank decides for itself how to evaluate the information in a consumer's report," added Ernst. "While banks might use information from a reporting service to make a decision, the service itself does not approve or reject account applications, so you might be successful in getting the institution to reconsider its decision and allow you to open an account."

Review your report and dispute incorrect information. If the bank used a report from a reporting service in deciding not to open a deposit account, it must tell you the name and contact information for the company. "If some information is wrong, getting it corrected may enable you to open a new account when you otherwise couldn't," explained Tracie Greenway Morris, an Acting Community Affairs Specialist at the FDIC.

Most likely, the report would be from one of the two major companies that track this type of checking account-related information: ChexSystems (www.consumerdebit.com/consumerinfo/us/en/freereport.htm or 1-800-428-9623) or Early Warning Services (www.earlywarning.com/consumer-information.html or 1-800-325-7775).

Under the FCRA, you are entitled to one free copy of your report every 12 months and any time that a report is used against you, such as an "adverse action" when your application is denied. You have a right to dispute any information in the report that is incomplete or inaccurate. Negative information in a report may include checks written without sufficient funds in the bank account, accounts closed with negative balances (fees owed to a bank), and transactions considered potentially fraudulent. Merchants may also report to these services any "bad" checks that you write to them — those that are returned unpaid by your bank.

The reporting services also must provide guidance on how to dispute



the information. Generally, you should inform the reporting agencies, in writing, about information that is inaccurate, and provide copies of any available supporting documentation. "While supplying evidence can be helpful, it is not required. You can still dispute negative information in your report without it," advised Ernst.

Be aware that when you contact a consumer reporting agency for a free copy of your report, the company may try to sell you other products, such as a numeric "score" based on the information in your report. Remember that you are not required to purchase any product for a free copy of your report.

For help with a question or complaint regarding a consumer reporting agency (checking or credit), start with the Consumer Financial Protection Bureau at www.consumerfinance.gov or 1-855-411-2372.

Look into "second chance" accounts. A closed account in your history doesn't mean that you won't be able to get another checking or savings account. "An FDIC survey indicates that one in four banks offers accounts that give an option to some consumers unable to open a regular checking account," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section.

Second chance accounts generally have higher fees and more restrictions than traditional accounts but are still less expensive and more convenient than the alternatives of paying check-cashing and money-order fees.

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Getting Social With Your Bank

Some tips for using financial institutions' social networking sites

Many people connect with friends, meet new people and interact with businesses on "social media" sites such as Facebook, Google+ and Twitter. Banks are also using social media to advertise their products and services, obtain feedback from consumers, and, in some cases, provide a gateway for customers to access their accounts. Financial institutions also often use social media to share information with their local communities and to solicit feedback from them.

Should you consider using social media to connect with your bank? And, if you do, what should you keep in mind? Before you decide, you should visit your bank or its Web site to learn about its social media policies. You can learn how the bank is using social media, its guidelines, and other ways to communicate and conduct your banking business.

Advertising Products and Services

"There can be benefits to using social media to interact with banks," said Elizabeth Khalil, a Senior Policy Analyst in the FDIC's Division of Depositor and Consumer Protection. "You might find out about new bank products or services more quickly or be eligible to obtain special offers. You might also obtain faster responses to your questions or complaints."

And in December of 2013, federal regulators including the FDIC issued guidance reminding banks that the laws that apply to institutions' activities in general continue to apply when they use social media. For example, when a bank uses Facebook to advertise loans, the bank must provide accurate disclosures just as it would in a newspaper advertisement.

Communicating With Your Bank

If you want to communicate with your bank on Twitter or Facebook, keep in mind that your posts could become public, even though you can protect your tweets and Facebook posts to some extent through your account settings. You should not include any personal,

confidential or account information in your posts. "Also, reputable social media sites will not ask you for your Social Security, credit card or debit card numbers, or your bank account passwords," said FDIC Counsel Richard Schwartz.

Before posting information such as photos, comments and links, you should look for a link that says "privacy" or "policies" to find out what can be shared by the bank or the social media site with other parties, including companies that want to send you marketing e-mails. Read what the policies say about whether, and how, personal information will be kept secure. Also find out what options you may have to limit the sharing of your information.

"Look carefully to see whose site you are on and which policies apply," Khalil said. "You might have started out on the bank's page, but clicked on a link that took you to another company's page, where that company's policies will apply."

It is also best to avoid posting personal information that a fraudster could use to impersonate you. Information that may seem innocuous to share could be helpful to an identity thief. "Be cautious, even with details such as the name of your pet or a school you attended," advised Schwartz. "That type of information is often requested by banks for their security 'challenge questions' that are used to control access to accounts. A fraudster could use that information to log in to your account."

Khalil said that some social media sites require or encourage people to provide their birthdate. "You should evaluate how comfortable you are providing this and similar information and who, if anyone, would be able to see it," she suggested. Also, she added, "Social media is inherently conversational and somewhat informal. That can lull people into a false sense of security, making them less careful with their personal information than they otherwise might be."

Banking Through Social Media

Some banks use their social media sites as a portal for consumers to bank online. Anyone interested in doing so should first determine whether the page is really the bank's page or if it appears to be fraudulent.

Make sure you are on a secure page — and on the bank's legitimate site — before you enter your username, account number, or password. Some fraudsters have become sophisticated at mimicking official Web sites.

Look for clues that might indicate that the site is fraudulent, such as misspellings or a low number of "likes" on a page. If only a few consumers are subscribed to a social media page that supposedly belongs to a very large bank, that could be an indication that the page you are on is not the bank's official page.

You should also look for a padlock symbol on your Web browser. If you have any doubts, go directly to your bank's Web site instead of linking to it from a social media site.

Resources

To learn more about online activities, including the importance of using a security/anti-virus software program for your computer or phone and keeping it updated, there are many good resources from the federal government. One is the FDIC's Web page "Safe Internet Banking" at www.fdic.gov/bank/individual/online/safe.html.

In addition, the Federal Trade Commission at www.ftc.gov/bcp/menus/consumer/tech.shtm has good information, especially the "OnGuardOnline" site on using the Internet safely. You can also call the FTC toll-free at 1-877-382-4357.

Updates and Reminders

Standard FDIC Insurance Coverage Is $250,000 Per Depositor

The FDIC has recently received a number of inquiries from depositors confused about future coverage. In 2010, Congress made the standard deposit insurance coverage amount of at least $250,000 permanent. A previous law, passed in 2008, provided for the coverage to revert back to $100,000 at year-end 2013. There will not be any change in the $250,000 coverage amount at the end of this year.

The standard insurance amount applies to each depositor at each insured bank, and for each "ownership category" in which that person has accounts. For example, if you have single accounts, joint accounts and certain retirement accounts at a bank, your money in each category is separately insured for up to $250,000.

As always, if you have questions about your FDIC insurance coverage, call us toll-free at 1-877 ASK-FDIC (1-877-275-3342) or visit www.fdic.gov/deposit/deposits.

FDIC Launches New Version of Financial Education Podcasts

The FDIC has launched an updated English version of the portable audio (MP3) network for the agency's "Money Smart" financial education curriculum. These podcasts enable consumers of all ages to learn while they are "on the go" about making informed and prudent financial decisions.

The content is organized into four categories: Basics of Banking, Checking Accounts, Savings/Spending Plan, and Borrowing Money. The material has been updated to reflect changes in consumer laws and industry practices since the podcast was created in 2009. The audio files can be accessed at the Money Smart Podcast Network website at www.fdic.gov/consumers/consumer/moneysmart/audio.

Regulators Encourage Institutions to Report Suspected Elder Fraud

The FDIC and six other federal regulatory agencies issued guidance in September 2013 that, in effect, encourages financial institutions to spot and report suspected fraud and theft targeting older adults. The guidance clarifies that federal privacy laws generally permit financial institutions to report suspected instances of elder financial abuse to the appropriate authorities.

"Recent studies suggest that financial exploitation is the most common form of elder abuse and that only a small fraction of incidents is reported," the regulators said in a press release. "Employees of financial institutions may be able to spot irregular transactions, account activity, or behavior that signals financial abuse. They can play a key role in preventing and detecting elder financial exploitation by reporting suspicious activities to the proper authorities."

For tips on how older adults can avoid financial scams, including information about the importance of reporting a fraud or theft, see the Summer 2013 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnsum13/scams.html).

Why and How to Make Extra Payments on Student Loans

Consumers can repay their student loan debt faster — and pay less money in interest — by sending in more than the minimum required each month. For borrowers who have more than one student loan, the best approach is to apply any extra payments to the loan with the highest interest rate first. However, that may not happen unless borrowers specifically tell their loan servicer (the company that collects their payments) where any extra payments should go.

The Consumer Financial Protection Bureau has issued an advisory for borrowers, including a sample letter that can be customized and sent to loan servicers with instructions on how to apply any extra payments. Find this guidance at http://files.consumerfinance.gov/f/201310_cfpb_consumer_advisory_student_loan_repayment.pdf.

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For More Help or Information

Go to www.fdic.gov or call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342)

Turned Down for Checking?
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Possible restrictions include: a lower dollar limit on daily withdrawals; deposits of only "official" checks, such as cashier's checks or money orders; requirements to open and manage a savings account for several months before you can have a checking account; and only allowing debit card transactions, which can limit withdrawals to the balance in your account (i.e., overdrafts are not allowed).

Some institutions also may require you to attend free financial-management training. Even if they do not, you could consider using the online version of the FDIC's "Money Smart" financial education curriculum to learn about selecting and managing a checking account effectively. Start at www.fdic.gov/consumers/consumer/moneysmart/mscbi/mscbi.html.

Institutions also may be less likely to allow you to open a checking account within a year after your account was closed due to overdrafts, suspected fraud or certain other issues. But if you owed a balance at your previous institution and have paid it in full, the new institution could be more willing to open a new account for you sooner.

Avoid scams. Be on guard against fraud artists and unscrupulous companies that offer to "repair" or "erase" your checking account (or credit) history, particularly if they charge a fee and "guarantee" a specific result. "If the history of a closed account is accurate, the reporting services are under no obligation to remove that information," cautioned Reynolds. "The account closing will remain in their files for up to seven years unless the bank or credit union that supplied that information asks that it be removed or there is a reason to do so under the law."

In general, think twice before paying for something that you can do at little or no cost on your own or with the help of a reputable counselor.

Final Thoughts

Once you obtain a new account, arrange to have money automatically transferred from savings to checking to cover overdrafts. And, develop a strategy based on what works best for you, perhaps one using smartphone technology, to know your account balance before you use your debit card or write a check.

"These days information is being collected, legally, on many aspects of our lives, and bank transactions are no exception," Morris said. "Missteps or misinformation can jeopardize your ability to retain or acquire a bank account. So, bank carefully and know your options if a problem should arise."

Our 20th Anniversary

Twenty years ago, the FDIC did something unusual for a federal government agency – it started a consumer newsletter. From the first issue in the Fall of 1993, the goal of our quarterly ***FDIC Consumer News*** has been to deliver timely, reliable and practical tips and information about money matters, free of charge.

Each issue offers helpful hints and common-sense strategies on topics ranging from finding the right bank account to protecting against fraud and simplifying your financial life. And we know from the results — including media coverage of our topics and the mail we receive from consumers — that our newsletter is helping people become smarter, safer users of financial services.

To find current and past issues or to subscribe to ***FDIC Consumer News***, see the box on the previous page.