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FDIC Consumer News

Spring 2007

Speed Paying and Banking

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could change the way
you manage your money

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Speed Paying and Banking

High-tech cards and phones could change the way you spend and manage your money

New technologies are constantly adding speed, convenience and flexibility to practically everything we do — including how we bank and pay for goods and services. If you think banking over the Internet is the latest trend, you may be in for some surprises...and for some revolutionary new ways to conduct your daily financial transactions using pre-paid cards, credit and debit cards, and cell phones.

“Banking and paying for goods and services is becoming increasingly wireless and mobile,” said Ben Vaughn, an FDIC manager in the section that monitors technology use by financial institutions. “Radio waves are removing the tether from credit cards, debit cards and personal computers, allowing easier access to our bank accounts.” The consumer benefits, Vaughn said, include “faster and easier purchases in the checkout line as well as being better able to monitor your bank accounts, which can help in the early detection of errors, fraud and identity theft.”

Many financial institutions as well as retailers, cell phone service providers and other companies are also offering special incentives (including waiving or reducing fees) to consumers who use high-tech payment methods. “There’s a lot of competition going on, and companies know that new banking services can create greater customer loyalty,” noted Donald Saxinger, an FDIC electronic banking specialist.

But while the new services can provide benefits, they also can present questions and concerns about security. “There is always the possibility that a customer could lose a cell phone or bank card, so it is crucial to safeguard passwords, monitor your bank accounts and quickly report and deactivate a lost device so it can’t be used to access an account or transfer funds,” Saxinger explained.

To help introduce you to new forms of technology in banking, **FDIC Consumer News** offers this overview.

Cards With a Pre-Loaded Value

These cards come in several varieties that serve different purposes but generally enable a cardholder to pay for goods or services. With each purchase, as the card is swiped through a card reader, the value goes down. It also may be possible to add value onto some pre-paid cards. Sometimes fees may be associated with these cards, so be sure to ask about the potential costs. Examples of the increasingly common and popular pre-paid cards include:

- **Gift cards.** Think of them as high-tech gift certificates. Some are for use at a specific store or service provider. Others are “universal” gift cards that generally can be used at any retailer that accepts credit and debit cards but usually cannot be used to obtain cash from ATMs and other sources.

While gift cards are great for birthdays or other occasions, they come with potential risks and costs. That’s why you should always read disclosures carefully and ask, for example, if a card has an expiration date that could wipe out a remaining balance after a certain time period (something prohibited under some state laws) or if fees will be deducted when the card is used — or not used.

- **Pre-paid debit cards issued by financial institutions for use at a variety of businesses and ATMs.** These cards generally can be used at most retailers that accept debit or credit cards. They also may be used to obtain cash from ATMs and are especially useful as substitutes for traveler’s checks. Some pre-paid debit cards also can be used to make purchases on the Internet.

- **Payroll cards.** With these, an employer deposits salary or benefit



Photos on cover and Page 2: Consumer Electronics Association

payments into a bank account, which an employee can access using a special debit card to withdraw cash at an ATM or make purchases at a merchant sales terminal. “Payroll cards are primarily good as substitutes for paychecks for employees who don’t have a bank account and might otherwise pay high fees to a check-cashing store,” said FDIC attorney Christopher Hencke.

- **Debit cards for Health Savings Accounts.** Consumers who are eligible under IRS rules for these tax-advantaged savings accounts at banks and other financial institutions can save for certain medical costs, including doctor fees and long-term care insurance payments, and then use a debit card (or write a check) to pay for qualified medical expenses.

If a pre-paid card is lost or stolen: A consumer’s liability for a lost card may vary depending on the type of card and who is issuing it. For example, a pre-loaded card issued by a bank or a major card network may provide more consumer protections than one issued by a retailer, “but to be sure you need to shop around, read the card’s terms and conditions, and find out what to do if you lose your card,” said David Nelson, a fraud specialist at the FDIC.

“Contactless” Credit and Debit Cards

You’re probably used to swiping your credit or debit card’s magnetic stripe

through a sales terminal. But with the new generation of what are being called “contactless” cards, you can wave your card in front of the sales terminal (or quickly tap it on a screen) at participating retailers. A special reader at the sales counter will use a radio signal to gather the payment information from an electronic chip embedded in your credit or debit card. Another possibility (first introduced for use at gas pumps) is a small piece of plastic — perhaps a tag you can keep on your key chain or attached to your car’s windshield — with a computer chip inside that can send information about which credit or debit card to charge. After getting a signal that your transaction has been recorded, you’ll probably have the option to get a printed receipt. The transaction also will appear on your statement.

What’s the benefit of contactless technology? It makes checking out faster, especially for small transactions (typically purchases under \$25) at restaurants, convenience stores, movie theaters and other places.

If a contactless card is lost or stolen: You will have the same security protections and limits on loss under federal laws and financial industry policies as you would for any unauthorized use of your “regular” credit or debit card issued by a financial institution. That would include any zero-liability against losses that a financial institution may provide for a card. For details, contact your card issuer.

Banking by Cell Phone

Most cell phones today enable you to do much more than simply make a call. New cell phones allow you to send “text messages” (brief e-mails) to other phones and computers, take still pictures and videos, browse the Web, watch TV and, increasingly, conduct some of your banking business.

Depending on the services offered by your financial institution (such as your bank or credit card issuer) and your cell phone service provider, the options may include:

- **Text messaging with your financial institution.** This is the most basic level of cell-phone banking. It is commonly used for receiving alerts from your bank when your account balance reaches a certain level or when a certain transaction occurs. As with most text-messaging services, you may pay your cell phone company monthly or a per-message fee for sending or receiving these messages.

- **Accessing your online bank account from your cell phone.** You may be able to check balances, pay bills and transfer funds using your cell phone to connect to your online bank account (after keying in your password). “Think of this as online banking but on a miniature computer with a smaller screen and more limited images and options,” explained Nelson.

- **Instantly paying for purchases using your cell phone.** Imagine going to the ball game, getting a hot dog from a vendor, using your cell phone to dial in to your credit or debit card account and immediately paying for your snack by sending a text message. “This form of mobile banking is mostly in limited use or in test stages, but as cell phones become equipped with special transmitter chips, there could be widespread use of phones for making payments,” Saxinger said.

“Within the next couple of years,” he added, “you may be using a cell phone to pay at checkout terminals and vending machines, send money to someone through a secure connection to your credit card or bank account, and even to download money (value) onto your phone.”

If a cell phone is lost or stolen: Given how easy it is to lose a mobile phone, a consumer considering banking by cell phone should take some precautions. “First,” Saxinger said, “make sure your bank requires a password or PIN to use a cell phone for banking. Also confirm with your bank that account numbers, passwords

and other sensitive information are not stored on the phone, where they can be retrieved by a thief.”

Saxinger also said that if you lose a cell phone that you used to do banking, you can take additional steps to protect against unauthorized access to your bank account. “Immediately contact your cell phone provider, which may be able to deactivate the phone or have sensitive information erased,” he said. “Also consider calling your bank to find out about any additional precautions it may be able to take or what more you can do.”

And what if a thief is able to obtain your password and then tap into your bank or credit card account? You’d have the same security protections

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Questions to Ask Your Banker Before Trying a High-Tech Service

How will this service make my banking simpler or more convenient?

Will mistakes or unauthorized transactions be simple to detect and correct?

What is my liability under federal law if a criminal obtains my account numbers and other personal information and commits fraud or steals money from my account? Does the bank or other company involved offer additional limits on liability beyond what’s in the law?

What security procedures do you recommend for consumers?

What does the bank do to protect my privacy, such as information about my account balance and how I spend my money?

How much will it cost to use the service, including any equipment or cards I must purchase or any monthly or per-transaction fees?

Attention ARM Borrowers: Contact Your Lender Before Higher Payments Put Your Home at Risk

Homeowners with adjustable-rate mortgages (ARMs) who are not able to make their monthly payment when the interest rate goes up should contact their lenders as soon as possible to discuss their options. That is among the main messages from the FDIC and other banking regulators for the millions of borrowers who have ARMs with very low payments in the early years of the loan that will sharply increase when interest rates reset.

Defaulting on a home loan means you can lose your home. The lender has the right to foreclose — to sell your home to raise money to pay off your debt — if you default. You would also severely damage your credit record, making it more difficult to borrow money or get a job or insurance in the future. Consider these steps to avoid that result.

Ask about refinancing or restructuring: While many lenders and loan servicers (companies that accept borrower payments and help administer escrow accounts) are writing or calling customers who face big rate increases about the possibility of refinancing or restructuring their loans, “I would encourage borrowers who anticipate having difficulty making payments to take the initiative and seek assistance

even if they have not been contacted,” FDIC Chairman Sheila C. Bair told the House Financial Services Committee on April 17, 2007.

That same day, the FDIC and other federal regulatory agencies issued a statement encouraging financial institutions to “work with homeowners who are unable to make mortgage payments,” by modifying loan terms or moving borrowers from variable-rate loans to fixed-rate loans that may be available at a lower monthly cost.

Before contacting your lender, consider getting help but beware of scams: The regulators also said that borrowers who are delinquent on their mortgage loans should consider getting help from a housing counselor. These are public and private organizations that offer advice and assistance on everything from buying and financing a home to dealing with debt problems, including avoiding foreclosure if the borrower misses loan payments. Some counselors assist consumers by working with lenders on their behalf, but it’s always important for the borrower to be actively involved in this process.

The FDIC and fellow regulators suggest these resources for finding a reputable housing counselor:

- The Department of Housing and Urban Development (HUD) maintains a list of approved housing counselors who give advice free or at low cost. To locate a HUD-approved counselor in your area, call 1-800-569-4287 or go to www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

- NeighborWorks America, a national nonprofit organization created by Congress, and HOPE for Homeowners, a service of the nonprofit Homeownership Preservation Foundation, have established a toll-free hotline at 1-888-995-HOPE (4673). Callers can receive immediate free advice and support from nonprofit, HUD-certified organizations 24 hours a day, 7 days a week. Callers who need additional assistance will be referred to reputable local counselors. For more information, start at www.995hope.org.

The FDIC and other government agencies also want consumers to be aware of credit-repair scams that target homeowners having serious problems making their mortgage payments. In one example, phony companies claiming to be housing counselors promise to help negotiate a new loan or perform other services for a hefty fee that is collected up-front. The companies actually do nothing at all or perform services consumers can do for themselves at little or no cost. Turning to a HUD-approved counselor for assistance is one way to avoid these types of fraud.

For more help or information if you’re facing problems paying your mortgage: See the HUD Web site “How to Avoid Foreclosure” at www.hud.gov/foreclosure/index.cfm. Also read *FDIC Consumer News* online at www.fdic.gov/consumernews for a variety of tips on money management, including how to shop for a mortgage (in the Summer 2005 edition and other issues). 🏠

Speed Paying and Banking Can Add Convenience

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and limits on liability as for other unauthorized electronic uses of your account. Contact your bank for more information.

Final Thoughts

If you’re willing to consider a new high-tech banking and payment service, see our list of questions to ask your service provider before signing up (Page 3). Also, considering the way technology is changing, these and other sophisticated new banking services

are sure to get more user friendly. “What may seem to be futuristic, space-age banking services today may become very common in only a few years,” said Janet Kincaid, FDIC Senior Consumer Affairs Officer. “Soon you could be one of the many people using a cell phone to buy a soda.”

No matter what, Nelson added, “it’s also nice to know that you’ll still have options to bank at a branch, at home or wherever or however you’re most comfortable.” 🏠

Don't Get Burned by Hot Investments

Beware of unsolicited offers and “guaranteed” sky-high returns. Deals aren't always as they appear and may misuse the FDIC's name.

Everyone wants to earn top dollar on their investments. That's why offers claiming to be far more lucrative than bank accounts can be very tempting. But while many investments may be attractive and appropriate for your financial situation, others may be of questionable value or, in the worst cases, frauds. *FDIC Consumer News* offers these tips on how to spot a potentially bad deal or a scam.

1. Be wary of unsolicited investment officers. In particular, never divulge your Social Security Number, bank account numbers and other personal information in response to an unsolicited offer over the Internet, in the mail or by telephone, no matter how official or legitimate it may appear, until you have had an opportunity to verify it.

“Unsolicited offers should always be viewed skeptically because many of them are from scam artists attempting to gather personal information they can use to tap into bank or credit card accounts or otherwise steal your identity,” said Richard Schwartz, an FDIC attorney who specializes in consumer protection issues. “That's why you should never assume that every scam involves a request to send money. Financial crimes today are just as likely to start with requests to fill out an application that has space for your Social Security Number, credit card number or bank account information.”

Be suspicious of an unsolicited offer that promises “guaranteed” returns that far exceed what's available in the marketplace — for example, an annual profit of 50 percent or more when similar investments typically pay 10 percent or less. “Basically, if someone contacts you out of the blue with an offer that's too good to be true, it's probably a scam of some sort,” added Schwartz.

Another warning sign is pressure to quickly say “yes” to an offer — before you have a chance to receive supporting documentation and research the investment and the company and the person offering it. Also be cautious if you get an investment offer originating from outside the United States. Frauds from abroad are common, and if an investment does turn out to be a scam, sometimes it can be difficult to find and prosecute criminals in other countries. (See examples of “classic cons” in the box below.)

2. Try to deal only with businesses and salespeople you already know or that have been recommended.

If you're tempted to send money or personal information to an unfamiliar company or person, do your research

first. This includes finding out if the company or sales person is licensed to do business by the state or federal government or has a history of disciplinary or other problems.

Fraud artists use deceptive advertising and Web sites to falsely claim to be legitimate banks, brokers or other financial firms offering a variety of products, including deposits they want you to believe are FDIC-insured. They also work under official-sounding corporate identities, often mimicking the names, logos and Web sites of well-known institutions. For that reason, don't trust the phone number provided in an unsolicited offer. Instead use a company's phone number that's listed in your phone book or another directory.

continued on next page

Classic Cons Continue to Target Trusting Investors

The age-old “Ponzi” or “pyramid” scheme is still netting big profits for con artists. In these frauds, criminals maintain the illusion of legitimacy by using money arriving from new investors to continue making dividend or other payments to the earlier investors. Eventually the crooks flee, leaving the remaining investors with worthless pieces of paper and losses often reaching into the millions of dollars.

Federal authorities report that recent examples of such scams involve con artists advertising on the Internet or in newspapers pretending to be banks or brokers promising high returns on stocks, bonds, certificates of deposit (CDs) or other financial instruments. One variation is the “affinity fraud,” which the Securities and Exchange Commission has described as an investment scam targeting a specific group — perhaps a religious or ethnic community, the elderly or certain professionals — by someone who is or pretends to be part of that group.

Separately, some con artists attempt to misuse the FDIC's name, logo, abbreviation or other information to suggest that non-deposit investments are fully insured by the FDIC. An example is a Web site that includes references to the FDIC and buries the fact that the non-deposit investment products being offered are not insured by the FDIC. “These sorts of schemes prey on trusting consumers — often the elderly — who invest their life savings thinking the investment is safe and FDIC-insured when, in fact, this is not the case,” said Sara Gibson, the FDIC's Assistant Inspector General for Investigations.

For guidance on whether a bank is legitimate, you can call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342) or use the FDIC's online directory of insured institutions, Bank Find, at www2.fdic.gov/idasp/main_bankfind.asp. To check on a deposit broker or a nonbanking firm, start with your state consumer protection office, which will be listed in the blue pages of your phone book and other directories. It may direct you to another state or federal government agency, such as the Federal Trade Commission, for more information.

3. Get key details in writing and independently research the investment. Before investing in anything, you should obtain a copy of important terms and conditions, which may include sales literature and a contract. These documents should spell out what you are required to pay or do and what you are promised in return. "Read this paperwork carefully," cautioned Schwartz. "If you don't understand the investment or if it appears too risky, the investment may not be right for you. Also don't be afraid to confirm or challenge information that, based on your own analysis of the situation, appears to be questionable or unusual."

It's also smart to do comparison shopping with at least two or three reputable companies in your community or online. With major investments in particular, get another opinion from a knowledgeable third party, perhaps a financial advisor or attorney.

FDIC officials stress the importance of knowing if a particular investment is "suitable" for you. "If the sales representative doesn't ask you about your investment goals, financial situation and tolerance for risk, that's a sure sign that person is much more interested in the company's bottom line than in yours, and you should walk away from the offer," said Howard Herman, an FDIC Consumer Affairs Specialist.

Also, remember that investments such as mutual funds, annuities, stocks and bonds are not deposits and therefore are not protected against loss in the event of an institution failure by the FDIC. In fact, among the actions required before an FDIC-insured bank completes an investment sale is to have the customer sign a statement recognizing that he or she understands that the investment carries risks and is not backed by FDIC insurance.

When considering the pros and cons of FDIC-insured deposits versus non-deposit investments (such as mutual funds, annuities, stocks and bonds), "be aware that some investment advisors are promoting wildly inaccurate claims about FDIC deposit insurance and how it would protect you if your bank were to fail," according to Kathleen Nagle, chief of the Deposit Insurance Section in the FDIC's Division of Supervision and Consumer Protection. "These include entirely false statements that the FDIC could take up to 99 years to pay insured depositors after a bank fails, and that FDIC insurance only pays a percentage of a depositor's insured funds."

Federal law requires the FDIC to pay the insured deposits "as soon as possible" after an insured bank fails. Usually that happens the next business day. Also, the law requires the FDIC to pay 100 percent of the insured deposits up to the federal limit — including principal and interest. For more misconceptions and facts about FDIC insurance, see the Spring 2006 *FDIC Consumer News* at www.fdic.gov/consumers/consumer/news/cnspr06. You can also call the FDIC for accurate information on what is insured, what isn't, and how FDIC protection works. And for a list of questions to ask an investment advisor before buying a product, see the box on the right.

4. Alert the proper authorities about a possible investment scam. Let your state consumer protection office, financial regulatory agencies or other authorities know if you've seen

an advertisement or other unsolicited offer that you believe is suspicious or fraudulent. When it comes to a matter involving a bank or an entity claiming to be a bank, you can start by calling the FDIC toll-free at 1-877-275-3342. "Often it is consumers who bring deceptive or fraudulent investment offers to the attention of government authorities," explained Herman. "In doing so, they may be preventing other consumers from falling victim to a scam."

If you think you've already been victimized, first contact the police department or your state consumer protection office. "Provide as much information as possible, request a copy of any reports filed and ask to be kept informed about the investigation," said Tom Parzinger, a bank examiner for the FDIC. "Sadly, you may or may not be able to recover much or all of your investment, depending upon the circumstances. But by bringing unethical or fraudulent companies to the attention of the proper authorities, that may help prevent others from being taken in." ■

Questions to Ask Before Agreeing to an Investment

You should never invest in a product you don't understand. Here are suggested questions to ask before you commit to anything.

- Would this investment be suitable for my needs?
- Could I lose money with this investment? What is the most money I could lose?
- What if I later change my mind and want my money back? Are there deadlines or other restrictions? What are the potential fees and penalties?
- Have you given me copies of all the disclosures, contracts or other documentation I need to understand my rights and responsibilities?

NEWS BRIEFS



The FDIC Sign Is Changing

The FDIC's official sign has a new look and new information that all insured banks and savings associations will be required to display at teller stations, ATMs and branch locations.

First, the new sign highlights the fact that FDIC insurance is "backed by the full faith and credit of the United States government." In addition, revised wording notes that each depositor is "insured to at least \$100,000" — that's because certain retirement accounts now are insured up to \$250,000, up from the basic FDIC coverage of \$100,000.

The new sign also lists the FDIC's Web site www.fdic.gov, where consumers can get information about their FDIC insurance coverage and other topics of interest.

The signs are already appearing at some institutions but must be displayed by all of them by November 13, 2007.

New Deposit Insurance Resources in English and Spanish

The FDIC has released a new Spanish version of its online Electronic Deposit Insurance Estimator (EDIE), a user-friendly Internet service that helps consumers calculate the insurance coverage on their deposit accounts at an FDIC-insured institution.

Both the English and Spanish versions of EDIE have been updated to reflect the recent changes in deposit insurance coverage of retirement accounts.

To access the English and Spanish versions of EDIE as well as FDIC brochures and videos on deposit

insurance coverage, go to www.fdic.gov/deposit/deposits/index.html. Consumer brochures also are available in Korean and Chinese.

Deceptive Mortgage Offers

The FDIC is warning homeowners to beware of lenders attempting to lure in customers by claiming to be giving cash or grants under a program tied to the federal Community Reinvestment Act (CRA). Some of the solicitations also imply that the FDIC endorses or supports the offers.

The CRA does not entitle individuals to grants or loans, and the FDIC does not endorse or sponsor mortgage loan programs. Consumers considering a loan secured by their home are urged to comparison shop at a variety of lenders.

Useful information on shopping for a home loan also can be found on the FDIC's Web site at www.fdic.gov/consumers/looking/index.html.

Treasury Report: Direct Deposit Safer Than Checks

The U.S. Treasury Department has released a survey showing large numbers of consumers mistakenly believe that paper checks are safer than direct deposit when, in fact, the opposite is true.

The Treasury said paper checks account for more than 90 percent of the reported problems with its federal benefit payments, such as stolen Social Security checks.

To learn more about the misconceptions and the facts about direct deposit, see the Treasury's February 28, 2007, press release at www.godirect.org/media/index.cfm.

The FDIC is part of the "Go Direct" campaign by the Treasury Department and the Federal Reserve Banks to encourage recipients of Social Security and other federal benefits to use direct deposit. ♣

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For More Information from the FDIC

Go to www.fdic.gov or call toll-free 1-877-ASK-FDIC—that's 1-877-275-3342 — Monday through Friday 8:00 a.m. to 8:00 p.m., Eastern Time.

A Final Exam: Test Your Money Management IQ

A quiz based on tips and information in this issue

1. New high-tech cards and phones that can be used for banking and paying for purchases are so advanced that customers will have less of a need to safeguard passwords and monitor their bank accounts than with traditional banking services.

True or False?

2. If you have an adjustable-rate mortgage and you are not able to make the monthly payment when the interest rate goes up, you should discuss the situation with your lender as soon as possible.

True or False?

3. If you get an unsolicited investment offer that's very tempting and you're told you must make a quick decision, there's no harm in filling out an application that requests your Social Security Number, bank account or


other personal information.

True or False?

4. The FDIC's official sign that institutions are required to display at teller stations and ATMs will be changing to highlight, among other things, that FDIC insurance is "backed by the full faith and credit of the United States government."

True or False?

5. According to the U.S. Treasury Department, paper checks account for more than 90 percent of the reported problems with its federal benefit payments, such as stolen Social Security checks, which makes direct deposit a safer option for consumers.

True or False? 

Correct Answers

5. True (See Page 7)
4. True (See Page 7)
3. False (See Page 5)
2. True (See Page 4)
1. False (See Page 2)

Planning to Travel Abroad?

The Spring 2006 **FDIC Consumer News** includes money-related tips for foreign travelers, such as alternatives to carrying cash, ways to minimize banking fees in another country, and how to protect against thieves. Find our suggestions at www.fdic.gov/consumers/consumer/news/cnspr06/traveling.html.