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Long-Distance Banking: A Guide to Your Rights and Risks

**Considering a far-away or Internet institution?
First know the basics of remote banking.**

What do you do when you get ads in the mail about great deals from banks and savings institutions you've never heard of and with offices you'd never get to, including some that only do business on the Web? Do you turn away? Or do you wonder if you could do better—on everything from savings accounts to mortgages and auto loans—by banking long-distance?

The FDIC is getting more and more questions from consumers about their rights and responsibilities and the risks of doing business with Internet banks and other institutions without a local office. *FDIC Consumer News* offers this overview, in a question-and-answer format, to address *your* questions and concerns.

What are the potential advantages of banking long-distance?

If you can get the services and interest rates you're looking for, and if you're comfortable conducting financial transactions by phone, mail or the Internet, long-distance banking can be a good option. For example, banks

that rely heavily on the Internet, toll-free call centers and other low-cost ways to serve customers nationwide may be able to pay higher returns on deposits or charge lower rates on loans than institutions with more extensive and expensive branch office networks. Michael Benardo, manager of the FDIC's electronic banking section, says that banking over the Web, in particular, offers convenience. "If you can do your banking from home, 24 hours a day, seven days a week, that's much more convenient than driving or walking to the bank during limited office hours," he says.

Online banking also allows you to monitor your account—to see which checks have cleared and which deposits have been credited—without having to wait for a statement in the mail. Of course, institutions in your local community probably offer banking services online or by phone or mail, but some people may prefer to shop nationwide for the best deals.

What are the possible disadvantages?

The biggest disadvantage may be that you can't sit down with a bank employee face-to-face if you want to, which can be especially helpful if you need to solve problems. You're likely to have to rely on the mail to make deposits and conduct certain other business. You'll also have to use an automated teller machine to get cash, and those transactions



Illustration: T.W. Ballard

usually involve fees. Also, because some of these institutions may turn out to be fraudulent, the consumer must bear additional responsibility for checking out the legitimacy of a distant institution before providing confidential information or sending money.

This isn't to say that far-away or unfamiliar banks should be avoided—only that risks exist and precautions should be taken. "As with most business transactions, it's buyer beware," says Janet Kincaid, a senior consumer affairs officer with the FDIC. Jeff Kopchik, a senior policy analyst with the FDIC's electronic banking section, agrees.

"Customers have the primary responsibility to take reasonable steps to make sure that an institution they are considering doing business with is legitimate and FDIC-insured, and that their deposits are within the FDIC insurance limits," he says. "The location of the bank doesn't change that."

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How can I be sure a remote institution or an Internet bank is legitimate?

First, learn everything you can about the bank. Consider starting with information posted on the bank's Web site, usually found in an "About Us" section or something similar. You may find a brief history of the bank, the address of its headquarters and branches, telephone numbers, and how to contact the bank for customer assistance. "Not providing these details could be a sign you should be extra cautious before doing business with that bank," adds Kopchik. "You should also be suspicious if the Web site looks sloppy or the Internet address appears unusually long," both of which he says are possible signs of "a temporary Web site set up by a crook."

If you're considering making a deposit, look for the official FDIC logo or the words "Member FDIC" or "FDIC-Insured" on the institution's Web site or advertisement, although some fraud artists have been known to use the FDIC name or logo illegally. When in doubt, you can confirm that a banking institution is insured by contacting the FDIC (see Page 7) or by searching our online "Institution Directory," a database of insured institutions at www3.fdic.gov/idasp. Be aware that some banks and thrifts operate affiliates and Internet sites under a different "trade" name than the company's "legal" name, and the FDIC database only uses the legal name. The FDIC and other federal regulators, though, have advised banks to clearly identify their legal names in advertisements and on their Internet sites.

When it comes to getting a loan, purchasing insurance or investing in any other financial product, steer clear of any company that has not been licensed to do that kind of business by a federal or

state government agency. If you're not sure how to find out if a company is legally licensed, get guidance from your state government's consumer protection office or Attorney General's office, as listed in your phone book.

A fraudulent Internet site may attempt to lure innocent victims with unusually attractive offers, so be very suspicious of deals that are significantly better than what other banks are offering. An example would be an offer of 15 or 20 percent interest on a deposit when local banks and other Internet banks are paying five percent. In addition, watch out for Web sites that deliberately use a name or Internet address similar to, but not the same as, that of a real financial institution. That's a deceptive technique used to trick consumers into thinking they're dealing with a reputable bank. For more guidance about Internet banks, read the FDIC brochure "Tips for Safe Banking Over the Internet," available online at www.fdic.gov/bank/individual/online/safe.html or from the FDIC's Public Information Center listed on Page 7.

If I bank by telephone or the Internet, are my legal protections the same as when I bank in person?

Yes, you're covered by the same consumer protections as other banking customers—the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth in Savings Act, the Federal Deposit Insurance Act (which provides for FDIC insurance), and so on. In addition, you're protected by the Electronic Fund Transfer Act, which governs consumer rights involving errors in the handling of electronic deposits, payments or withdrawals, and limits on consumer liability for unauthorized transfers.

How are deposits at Internet banks insured?

The FDIC's coverage depends on whether the Internet bank has its own charter or if it's a division of a traditional brick-and-mortar bank. An Internet bank that has its own charter is covered just like any other FDIC-insured institution. Even if the Internet bank is a subsidiary or affiliate of another insured institution, as long as the Internet bank has its own charter (as indicated by its own FDIC certificate number) it is separately insured. That means that if you have deposits at both of those banks, your funds at the two institutions would be insured separately, even though the two institutions are affiliated.

But let's say the Internet bank is a division of a parent bank, not a separately chartered subsidiary. And let's suppose you have deposits at both banks... and the parent bank fails. Because they are both the same institution under the same charter, your deposits at the Internet bank would be added to those at the parent bank, and any funds over the insurance limit may not be fully protected. Here, the funds would be combined for insurance purposes *even if the names of the two banks are different.*

Establishing if an institution has its own charter can be complicated, so contact the FDIC if you have questions.

How can I be confident that my banking transactions over the Internet are secure?

First, make sure the bank's Web site describes its security procedures. Most banks use "encryption" to scramble account numbers and other private information to prevent unauthorized access. Take your own precautions by protecting your passwords and personal identification numbers (PINs), including not using birthdays or other numbers or words that may be easy for other people to guess.

Also take steps to safeguard your banking information and other personal data. For example, never send a bank or anyone else an e-mail with personal information, such as your bank account, credit card or Social Security number, unless the e-mail is encrypted. For more information about security procedures or to discuss concerns about your online accounts, call the bank directly.

How can I best protect myself from errors or other disputes when banking long-distance?

As with any banking relationship, keep good records. That means, for example, deposit receipts, periodic statements, account disclosures, explanations of your rights and responsibilities, and copies of any contracts you agree to with the bank. If a dispute or a discrepancy arises, those documents may help support your claim. Also, monitor transactions and account balances regularly. If you find a discrepancy, promptly notify the bank.

Can banking regulators help me solve a problem with a far-away or Internet bank?

If you can't solve the problem directly with the bank, the institution's federal regulator—the Federal Reserve System, the FDIC, the Office of the

Comptroller of the Currency or the Office of Thrift Supervision—may be able to assist you. Each federal regulator has a responsibility to investigate and respond to consumer complaints. The regulators, however, may not be able to assist you in a contractual dispute or if a matter is in litigation. If you're not sure which federal agency supervises a particular institution, ask any federal agency listed on Page 7 or go to the Institution Directory on the FDIC's Web site. If the bank is a state-chartered institution, the appropriate state regulator also may be able to help you resolve a problem or complaint.

I've heard that deposit brokers can sell CDs (certificates of deposit) from banks across the country at higher interest rates than I can get from my local bank. Is there a catch?

Maybe, maybe not. Brokers sometimes can negotiate a higher interest rate on a bank-issued CD because they can bring a large amount of deposits to the bank. However, CDs sold by brokers also tend to be complex and may carry more risks than traditional CDs sold directly by banks. Also, some unscrupulous brokers have used misleading tactics to sell CDs with 20- or 30-year maturities to elderly people who

thought they were purchasing CDs for only one year. For more information, see the Fall 2000 issue of *FDIC Consumer News* available on our Web site at www.fdic.gov/consumers/consumer/news/cnfall00.

Is it safe to deposit money in a foreign bank that advertises in the U.S.?

It depends. There are foreign banks that have FDIC-insured branches in the United States. Funds deposited at those branches would be covered by the insurance rules up to the \$100,000 insurance limit, the same as with an American bank that's FDIC-insured. There also are legitimate banks chartered outside the United States that may not be FDIC-insured, even if they have offices in the U.S. And, as *FDIC Consumer News* has warned in the past, there are unlicensed entities that use names very similar to the names of some of the largest banks in the world and even claim to have FDIC deposit insurance, but in reality are fraudulent. The bottom line: Know who you are dealing with before sending money or providing personal information. If you have doubts, contact the FDIC for assistance.

Final Thoughts

Times have changed. You have many more choices in financial service providers, including institutions thousands of miles away or only on the Internet. As with any business transaction, research your options, shop for the best deal, and be sure an unfamiliar company is legitimate before agreeing to anything. "You also must make informed choices that meet your needs and your lifestyle," says the FDIC's Kincaid. "Your neighbor may feel perfectly safe banking long-distance, but you may feel secure only if you can interact face-to-face with employees in a bank. It's what makes you comfortable." ■

Before You Do Business With a Distant Bank...

Research the institution. Just because you see the bank advertised in a newspaper or magazine or on the Internet, don't assume it's legitimate. Federal regulators can help (see Page 7).

Be sure that deposits are FDIC-insured. Confirm that an institution is FDIC-insured by contacting the FDIC or by consulting the FDIC's database of insured institutions at www3.fdic.gov/idasp. Also find out if the bank is a division of another bank where you already have deposits, because having deposits at both places could put you over the insurance limit.

Understand the terms, conditions and costs. A great-looking offer may be offset by high fees or minimum-balance requirements. Make sure you're comfortable with your options for doing business with the bank long-distance. (Example: How would you make deposits and withdrawals?) Be suspicious if the deal sounds too good to be true.

Saving for Retirement: A Job You Should Take Seriously

Most people don't save enough to retire comfortably. Here are our latest tips.

Everyone hopes to lead an active, independent, worry-free life in retirement. But achieving these dreams takes money, and one message comes across loud and clear in research studies and forums on retirement savings: Most Americans are NOT saving enough for their retirement.

Many authorities suggest that in your retirement years you need 70 to 80 percent of your pre-retirement income just to maintain your current lifestyle. But too many Americans, including large percentages of people in their 40s and 50s, have saved little or nothing for their retirement.

"Experts say that time is running out for many Baby Boomers who will soon reach retirement age," adds Don Blandin, president of the American Savings Education Council (ASEC), a Washington-based coalition of private- and public-sector institutions. "If they do not dramatically change their spending, saving, and investing habits, millions of Boomers will face financial hardships in what are supposed to be the best years of their lives."

The need for more retirement savings has been highlighted recently as stock market losses and lower yields on savings accounts have cut into many families' retirement programs. That's why we are offering this latest summary of tips to help you build and protect your nest egg.

1. Make saving for retirement a priority. Start by figuring out how much you need to set aside, perhaps by using one of the many interactive worksheets available on personal finance Web sites (one being the ASEC's "Ballpark Estimate" at www.asec.org/ballpark). Among the other steps you should consider: Contribute

as much as you can to 401(k) savings programs at work and Individual Retirement Accounts (IRAs) through your bank or brokerage firm. Arrange for automatic, direct deposit of funds into 401(k)s and IRAs. Also, plan to increase your retirement savings with each pay raise.

The sooner you start saving for retirement, the more money you'll have because of the compounding of interest year after year. Sachie Tanaka, an FDIC community affairs specialist, provides this example: Two people want to have \$1 million in retirement savings by age 60. One starts saving at age 20, the other at age 40. Assuming a five-percent interest rate that's compounded daily, the 20 year-old needs to set aside \$651 a month to reach the million-dollar goal, but the 40 year-old must do a lot of catching up by saving about \$2,422 each month.

2. Diversify among a mix of investments. The news media has been filled recently with stories about thousands of Enron employees who loaded their 401(k) retirement accounts with the company's stock and then saw their savings disintegrate when Enron filed for bankruptcy and the stock's value plummeted.

Experts suggest a mix of investments and savings programs, typically including IRAs and Keogh accounts (for the self-employed); 401(k)s and pensions offered by employers; bank certificates of deposit (CDs); a good variety of stocks and bonds (individual or in mutual funds); and real estate.

If you're in your 20s or 30s, and depending on your tolerance for risk, you probably can afford to be moderately aggressive with your investments. If you're in your early 60s and close to retirement,

you'll want to be more conservative, with more in CDs and bonds and less in stocks or stock mutual funds than you had in the past.

Also, make sure you have enough life, health and disability insurance, which are investments that can protect your family's finances from a major setback.

3. Take advantage of the tax breaks. Try to contribute all you can to 401(k)s because the earnings are tax-deferred, certain contributions may reduce your taxable income, and many employers even add money to your account as an extra incentive. Also, the Economic Growth and Tax Relief Reconciliation Act of 2001 includes special incentives for putting more money into IRAs, 401(k) plans and other retirement programs. For example, contribution limits for traditional IRAs and the relatively new Roth IRAs (where the earnings may be tax-free) are rising from \$2,000 last year to \$3,000 this year, \$4,000 in 2005, and \$5,000 in 2008.

4. Give your retirement accounts a periodic checkup. Monitor your retirement accounts at least once or twice a year. Perhaps you'll want to "rebalance" your portfolio if, because of market fluctuations, your holdings have become too heavy or too light in a certain type of investment. Or, maybe you'll decide to increase your retirement contributions if the accounts aren't growing as you expected.

Review your "Personal Earnings and Benefit Statement" from the Social Security Administration, which is mailed automatically each year to current and former workers aged 25 or older and is otherwise available upon request. The statement shows your

lifetime earnings and an estimate of your Social Security benefits. Among the things to look for: possible mistakes in your earnings report that can reduce your retirement benefits in the future. Also, contact current and former employers about your pension benefits and try to resolve any problems as soon as possible.

5. Plan a strategy for when and how to tap your retirement funds. It's important to know when you are eligible to withdraw from retirement savings and collect Social Security benefits, how much you can withdraw and collect, and the tax implications. This kind of information can help you make smart decisions about such matters as where to put most of your retirement savings and when you can expect to retire.

For example, new IRS rules substantially reduce the minimum amount you must withdraw each year from a traditional IRA, 401(k) and certain other retirement savings plans after age 70½. That's a money-saving change for many consumers

because it means you can keep more money growing longer tax-deferred, says FDIC tax specialist Rick Cywinski. But he also notes that, because some people don't take as much from their retirement savings as the law requires, the IRS has adopted new procedures to more closely monitor retirement account distributions each year. That's also important, Cywinski says, "because the penalty for not taking minimum withdrawals after age 70½ is huge—50 percent of what you were supposed to take out but didn't."

6. Professional financial advisors can be helpful, but choose one carefully. Many professionals (perhaps even your banker, broker, accountant or insurance agent) call themselves "financial planners" even though their qualifications and services may differ significantly. Start your search by asking family or friends to recommend a reliable professional. "Try to find someone knowledgeable and reputable—someone who will take the time to make recommendations that are

suitable for your needs," says Ed Silberhorn, an FDIC consumer affairs specialist.

The Securities and Exchange Commission also says that before you hire any financial professional, you should know what services you're paying for, how much those services cost, and how the advisor or planner gets paid. Example: Some financial planners only charge for their advice—they do not get paid more if you purchase the financial products they recommend. Other financial planners, though, may earn commissions if you purchase products they suggest.

Try to interview more than one planner and ask for a written description of the services offered. And, independently check the credentials and reputation of a prospective investment advisor. A good place to begin is your state government's consumer protection office or state Attorney General's office, as listed in your phone book.

7. Know if your retirement deposits are fully insured by the FDIC. You don't have to worry if you have less than \$100,000 in retirement funds at the same bank—it is all federally insured. But if you've got more than \$100,000 in retirement accounts at the same bank, some of your money may be uninsured.

In general, your IRAs and any other "self-directed" retirement deposits at the same FDIC-insured institution are added together and insured up to \$100,000. (Self-directed means that you, not your employer, decide where to place the money.) IRAs and other self-directed retirement funds, however, are insured separately from other types of deposits you have at the same institution, including pension funds deposited by your employer (and not self-directed). For more information, check www.fdic.gov or contact the FDIC (see Page 7). 🏠

Federal Government Help for Your Golden Years

The **FDIC and other federal banking agencies** (see Page 7) can answer questions about retirement accounts and your rights. The FDIC also can help you understand how retirement accounts at banks and savings institutions are insured.

The **Internal Revenue Service** can assist with tax-related questions about your retirement savings, such as when you can withdraw funds from a retirement account without a penalty. Call toll-free (800) 829-1040 or check the Web site at www.irs.gov.

The **Social Security Administration** can provide information about your Social Security benefits or about how to file a benefit claim. Call toll-free at (800) 772-1213 or go to www.ssa.gov.

The **Pension and Welfare Benefits Administration**, part of the U.S. Department of Labor, responds to inquiries about pension rights and publishes brochures about retirement savings. Call toll-free (866) 275-7922 or go to www.dol.gov/dol/pwba.

The **Federal Consumer Information Center** is a clearinghouse for free and low-cost booklets published by various federal agencies. For a free catalog, call toll-free (888) 878-3256. Or, read or order the publications online at www.pueblo.gsa.gov.

You Find “Proof” of an Old Account or Safe Deposit Box: Is It Treasure or Trash?

Have you ever searched through old family documents and turned up an old bank statement, certificate of deposit (CD) or receipt for a safe deposit box you didn't know anything about?

The FDIC receives hundreds of calls and letters each year from people trying to solve mysteries about old bank accounts. Sometimes people get the answer they've been hoping for—that a bank, a state government or the FDIC has these forgotten assets, and they're available to claim. But FDIC officials say that, in most cases, there is no treasure waiting because the original owners withdrew the money or cleaned out the safe deposit box long ago.

Often adding to the confusion is that bank customers don't have to turn in an original passbook or certificate in order to close an account or receive an FDIC insurance check when a bank fails. “Those old passbooks and CDs at home, if not updated by the customer, can become a source of confusion in the future,” says Martin Becker, a senior specialist with the FDIC division that handles insurance claims.

FDIC Consumer News offers the following suggestions for keeping assets out of the lost-and-not-found department at a bank or government agency.

If you discover evidence of an old account or safe deposit box, find out if the institution is open or closed. The bank or savings institution may still exist under the same name or under a different name (common after bank mergers), or it may be closed. One way is to search the FDIC's online Institution Directory of insured institutions at www3.fdic.gov/idasp. (Click on “Find an Institution” and, in the box marked “Institution Status,” select “All” to search for open and

closed institutions. If you find a possible match, click on the certificate number.) The FDIC database enables you to trace the history of an institution, even after several mergers.

If the financial institution is still open, ask for a status report on your old accounts. Among the possible outcomes: The original owner closed the account or removed the valuables. The account or safe deposit box may still be at the institution and available for withdrawal. Or, as the result of years of inactivity, the account became “dormant” under state law and the assets were “escheated” (transferred) to the unclaimed property office in the state where the owner lived or did business.

A good place to begin your search for assets sent to the state is www.unclaimed.org, the Web site of the National Association of Unclaimed Property Administrators (NAUPA). If a state has your funds, and you provide satisfactory proof of ownership, the funds will be released. Even if a state has already sold an asset (because it's impossible to store and maintain all the unclaimed items received), the original owner or heirs generally have the right to claim the proceeds from the sale, according to the NAUPA.

If the bank was closed by the government, find out if the deposits and safe deposit boxes were transferred to another institution or to the FDIC. Start by searching the FDIC database described previously or by calling the FDIC. In most cases, there is an acquiring institution for the failed bank's deposits and safe deposit boxes. If not, the FDIC will mail insurance checks to depositors and send letters to renters of boxes about how and when to remove the contents.

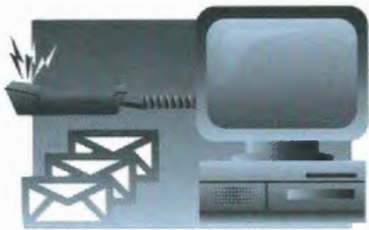
Some people never claim their insured deposit from the FDIC and, under federal law, forfeit the money. Under current rules in effect for failures as of June 1993, people have 18 months from the date of the failure to claim their insured funds from the FDIC. At the end of that period, the FDIC sends any unclaimed deposits to the state unclaimed property office. “The depositor may be able to recover these funds from the state for 10 years,” explains FDIC attorney Catherine Ribnick, “but after that time, any money remaining unclaimed is returned to the FDIC's deposit insurance funds and is no longer available to be claimed.”

The contents of any safe deposit box left unclaimed with the FDIC will be sent to state unclaimed property offices “under the timetable in the appropriate state law,” according to Linda Shaw, an FDIC insurance claims specialist. For more information, search our new database of unclaimed funds from failed financial institutions at www2.fdic.gov/funds/index.asp.

Prevent assets from getting lost or forgotten in the first place. If you move or change names, notify your bank and other financial institutions. And, for the benefit of your heirs, “dispose of old passbooks, savings account records or safe deposit box information, or at the very least, mark them as closed,” suggests Howard Herman, an FDIC consumer affairs specialist. (Note: If these documents contain account numbers or Social Security numbers, shred them before tossing them.)

Finally, Becker suggests that if you ever find “proof” of an old bank account and you're not sure what to make of it, “remember that you can always turn to the FDIC for help or direction.” To contact the FDIC, see the next page. ■

For More Information



The **Federal Deposit Insurance Corporation** insures deposits at banks and savings associations, and supervises state-chartered banks that are not members of the Federal Reserve System. The FDIC's services include a toll-free consumer assistance line, answers to written questions, and informational material. Toll-free phone: (877) ASK-FDIC or (877) 275-3342. The phone line is staffed Monday through Friday, 8:00 a.m. to 8:00 p.m., Eastern Time. Recorded information is available 24 hours a day. The toll-free TTY number for hearing-impaired consumers is (800) 925-4618. Home Page: www.fdic.gov. Mail: 3501 N. Fairfax Drive, Arlington, VA 22226.

For questions about deposit insurance coverage: Contact FDIC Consumer Affairs at the address and phone numbers above, by fax to (202) 942-3098, or by e-mail using the Customer Assistance Form on the Internet at www2.fdic.gov/starsmail/index.html. The National Credit Union Administration (listed below) insures deposits at federally insured credit unions.

For other questions, including those about consumer protection laws, or complaints involving a specific institution: First attempt to resolve the matter with the institution. If you still need assistance, write to the institution's primary regulator listed on this page. Although the FDIC insures nearly all banks and savings associations in the United States, the FDIC may not be the primary regulator of a particular institution. Other regulators are listed below. To submit a complaint about an FDIC-supervised institution, contact FDIC Consumer Affairs as listed above. For inquiries involving problems or complaints related to the FDIC, contact the FDIC Office of the Ombudsman at the mailing address and phone numbers listed above, by fax to (202) 942-3040, or by e-mail to ombudsman@fdic.gov.

The **Federal Reserve System** supervises state-chartered banks that are members of the Federal Reserve System. Phone: (202) 452-3693. Fax: (202) 728-5850. Home Page: www.federalreserve.gov. Mail: Division of Consumer and Community Affairs, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

The **Office of the Comptroller of the Currency** charters and supervises national banks. (The word "National" appears in the name of a national bank, or the initials "N. A." follow its name.) Phone: (800) 613-6743. Fax: (713) 336-4301. Home Page: www.occ.treas.gov. E-mail: consumer.assistance@occ.treas.gov. Mail: Customer Assistance Group, 1301 McKinney Street, Suite 3710, Houston, TX 77010.

The **Office of Thrift Supervision** supervises federally and state-chartered savings associations plus federally chartered savings banks. (The names generally identify them as savings and loan associations, savings associations or savings banks. Federally chartered savings associations have the word "Federal" or the initials "FSB" or "FA" in their names.) Phone: (800) 842-6929 or (202) 906-6237. Home Page: www.ots.treas.gov. E-mail: consumer.complaint@ots.treas.gov. Mail: Consumer Affairs Office, 1700 G Street, NW, Washington, DC 20552.

The **National Credit Union Administration** charters and supervises federal credit unions, and insures deposits at federal credit unions and many state credit unions. Phone: (703) 518-6330. Fax: (703) 518-6409. Home Page: www.ncua.gov. E-mail: pacamail@ncua.gov. Mail: Office of Public and Congressional Affairs, 1775 Duke Street, Alexandria, VA 22314.

Your state government also may offer assistance and publish useful information. Contact your state's Attorney General's office, consumer protection office or financial institution regulatory agency as listed in your phone book or other directories, or visit your state's official Web site.

FDIC

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On the Internet

Consumer information from the FDIC is available at www.fdic.gov.

Find current and past issues of **FDIC Consumer News** at www.fdic.gov/consumers/consumer/news/. To receive e-mail notification of new issues, with links to stories, write to listserv@peach.ease.lsoft.com and type "Subscribe FDIC-consumernews" (include the hyphen) and your name in the message area.

There's No Such Thing As a Free-Lunch Loan

Advertisements for loans touting easy terms are tempting. They can be good deals, but you must read the fine print:

"Zero Percent Financing" on auto loans. Often these loans are for 12, 24 or 36 months, not the 48 or 60 months many people choose to keep monthly payments down. If you opt for a shorter loan term, be sure you can make the monthly payments. Also look for any hidden fees.

"Zero Percent Interest" on a credit card. These offers usually are for limited purposes and time periods, such as no interest charges for three months on new purchases or on any balance you transfer from another credit card. "This may be a good option, but you've got to read all the documentation and do the math," says Janet Kincaid, a senior consumer affairs officer with the

FDIC. For example, if you don't pay the balance by the due date, you *will* incur interest. Also find out if there's a balance transfer fee or an annual fee. These charges could be sizable—so high, in fact, that the zero-percent offer may cost more than a card with a higher interest rate but not the other fees.

"Add the Closing Costs" to your mortgage. You're not getting out of paying the closing costs—they're added to the loan balance, so your monthly payments will increase plus you'll be paying interest on the closing costs. And, if adding the closing costs to the loan balance results in a down payment on the loan of less than 20 percent of the home's value, you will probably have to purchase private mortgage insurance (PMI), which protects the lender if you stop making

Do You Have Questions About Credit Cards or Debit Cards?

We'd like to know. Write by September 15th to: Jay Rosenstein, Editor, *FDIC Consumer News*, 3501 N. Fairfax Drive, Room MB-7100, Arlington, VA 22226. You can also send an e-mail to JRosenstein@fdic.gov or a fax to (202) 898-3870. Please include your name, address and phone number. No names will appear in print without permission.

mortgage payments. PMI can cost \$40 to \$70 per month for the typical mortgage loan.

"No Payments on Merchandise Until Next Year." Even though you won't make payments for several months, if interest is being charged from the date of purchase, as is often the case, you can end up paying much more for an item than you expected. Also, if you don't pay for the merchandise *in full* by the end of the specified period, you may be charged interest from the date of purchase. 🏠

Federal Deposit Insurance Corporation
Washington, DC 20429-9990
OFFICIAL BUSINESS
Penalty for Private Use, \$300



PRESORTED
STANDARD
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No. G-36