FDIC Consumer News
Spring 2001

One-Stop Shopping for Financial Services: A Window of Opportunity for the Informed Consumer

Banks and savings institutions are increasingly becoming financial supermarkets offering investments and insurance products in addition to insured deposits. Here's how to understand the risks, including knowing what's FDIC-insured and what isn't.

Many of you probably can remember your first checking or savings account, most likely at an FDIC-insured bank or savings institution in your neighborhood. You knew the FDIC would protect you from losses if the institution failed. Today's banking institutions still provide safe, federally insured deposits. But developments in recent years, including a 1999 "financial modernization" law (the Gramm-Leach-Bliley Act), have made it easier for FDIC-insured institutions to offer stocks, bonds, mutual funds, annuities, life insurance and other products not traditionally sold by banks. These products can be attractive alternatives to bank deposits because they often provide a higher rate of return. But unlike deposits, these other products are *not* FDIC-insured and, in some cases, could lose value.

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This array of financial products available from banking institutions offers great convenience to consumers. It means you can take care of most (if not all) of your financial needs—from banking to investing to buying insurance—under one roof. You have the ability, for example, to put your retirement savings into mutual funds and insured bank deposits offered by one provider. Or, you can get your auto loan and your auto insurance from the same organization.

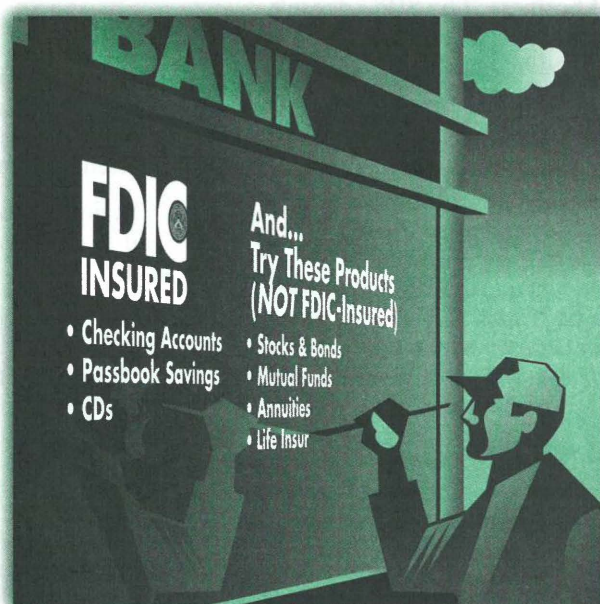

Illustration: T.W. Ballard

But along with a wider range of savings and investment options comes an increased need for consumers to be knowledgeable about these new banking products and the different risks associated with them. "The old rule-of-thumb was, 'if it comes from an FDIC-insured institution, it must be completely safe because it's covered by FDIC insurance,' but that doesn't necessarily hold true," says Kate Spears, an FDIC consumer affairs specialist in Washington. "These new products can offer the potential for higher returns than traditional deposits, but consumers need to understand these products, especially the risks, before they make a purchase."

One important aspect of understanding the risks is to know which products offered by banking institutions are covered by FDIC insurance and which are not.

"It's easy to understand how some consumers could become confused about which products are FDIC-insured, especially when the new investment products are sold at the same offices where customers can open

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deposit accounts," says Kathleen Nagle, also of the FDIC's consumer affairs division in Washington. Two examples:

• A stockbroker at your bank or savings institution can sell securities and mutual funds that are protected against certain losses, but not by the FDIC and not in the same way the FDIC insures deposits. The Securities Investor Protection Corporation (SIPC), a non-profit corporation (not a government agency) funded by brokerage firms, provides limited coverage if, for example, a member brokerage firm goes out of business. The SIPC doesn't insure you against financial losses caused by market declines. (To learn more about the SIPC, go to www.sipc.org on the Internet.)

• Your bank or savings institution can sell annuities, which are investments with income guaranteed to start some time in the future. Annuities may appear to be "insured" because they guarantee a minimum payment for life, but these products are not FDIC-insured.

As part of the FDIC's ongoing efforts to educate consumers about what is and is not FDIC-insured, and to help you better understand the wide array of investment, savings and insurance choices available from banks and saving institutions, we offer the following guide.

Insured or Not?

Federal law is specific about what is a deposit covered by FDIC insurance. In general, think of a deposit as money you put into a checking or savings account at a banking institution that can be used by the institution to make loans to other customers. Examples of FDIC-insured deposits include:

• Checking accounts, Negotiable Order of Withdrawal or NOW accounts (checking accounts that earn interest), and Money Market Deposit Accounts or MMDAs (savings accounts that allow a limited number of checks to be written each month).

• Savings accounts that you can add to or withdraw from at any time.

• Certificates of deposit (CDs), which generally require you to keep funds in the account for a set period, perhaps from three months to five years. Money can be taken out beforehand if you pay an early withdrawal penalty.

So, what's NOT insured by the FDIC that consumers often mistakenly believe may be federally insured if a banking institution is involved?

• The contents of safe deposit boxes. Even though the word deposit appears in the name, under federal law a safe deposit box is not a deposit account—it's strictly a well-secured storage space rented by an institution to a customer. If you are concerned about the safety or replacement of items you put into a safe deposit box, ask your insurance agent whether your homeowner's or renter's insurance policy covers your safe deposit box against damage or theft.

• Losses due to theft or fraud at the institution. However, these situations often are covered by special insurance policies that banking institutions buy from private insurance companies.

• Errors made in your accounts. In these situations, there may be remedies for consumers under state contract law, the Uniform Commercial Code, and some federal regulations, depending on the type of transaction.

• Insurance and annuity products, such as life, auto and homeowner's insurance. Not only are these products not backed by the FDIC, but some insurance products may even lose value.

Questions to Ask Before Buying an Investment

You should never invest in a product you don't understand. Here are suggested questions for you to ask an investment advisor at your bank or savings institution, and why his or her answers are important:

What types of investment products would be suitable for my needs? Your advisor is likely to recommend different investments, depending on your priorities.

What are the chances I could lose money? Know if you are the kind of person who doesn't want to take chances with your savings or if you are willing to take higher risks in exchange for the possibility of higher returns. "Remember that all investments contain some degree of risk," says Amy Aulthouse Mitchell, an FDIC securities specialist. Also, ask your investment advisor about any potential penalties for early withdrawal from an investment.

Who should I contact if I have questions? Get the address and phone number for customer service at the institution if you discover a discrepancy or some other problem with your account, says Kate Spears of the FDIC's consumer affairs division. See the box on Page 4 for tips about how to get help or information from the FDIC and other government regulators.

• Stocks, bonds and mutual funds.

• Investments backed by the U.S. government, such as Treasury securities and Savings Bonds.

How to Tell the Difference

First, remember that FDIC insurance protects only deposits. Products such as mutual funds, annuities, stocks, bonds and U.S. Treasury securities are not deposits and therefore are not protected by the FDIC. Mutual funds, stocks and bonds are subject to investment risks, including the possible loss of principal, even if you bought them from your FDIC-insured institution. Treasury securities and Savings Bonds, while not insured by the FDIC, are backed by the full faith and credit of the U.S. government.

Two products that are easy to confuse because they have similar names are Money Market Deposit Accounts and money market mutual funds (often called money market funds). MMDAs, as we described previously and as the name indicates, are deposits and, as a result, are covered by FDIC insurance. Money market mutual funds, on the other hand, are funds that invest primarily in short-term corporate bonds or government securities and are not deposit accounts insured by the FDIC.

To minimize potential confusion about which products are FDIC-insured, banks and savings institutions are required by federal banking regulators to clearly differentiate insured deposits from investments, both in their sales practices and their advertisements. For example, to the extent possible, investment sales should not take place in a bank's teller area. Institutions also must ensure that sales personnel are properly qualified and trained, and that they recommend investments that are suitable for

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$100,000 FDIC Insurance—What's Included?

The FDIC protects deposits when an insured depository institution fails and is closed by the state or federal banking regulator that chartered it. While the basic federal insurance amount is $100,000, you actually can receive more than $100,000 of coverage if your funds are maintained in different ownership categories. For example, you can have coverage of up to $100,000 for your individual accounts at the bank, another $100,000 for your share of joint accounts at the same bank, and yet another $100,000 for your retirement accounts there.

What else factors into the $100,000 coverage? It includes principal (what you put into the account) plus interest earned to date. Note, however, that some FDIC-insured CDs recently being offered by financial institutions or sold through deposit brokers have unusual features that may result in the FDIC protecting *only the principal* during the term of the CD. An example is a five-year CD whose interest rate is not fixed but varies with the ups and downs of the stock market; that has no guaranteed minimum interest rate you'll earn; and pays interest only when the CD matures in five years instead of accruing on a daily or monthly basis. "If you have that kind of CD and the institution fails," says FDIC attorney Joe DiNuzzo, "federal insurance would cover only your principal, not any interest, because there is no specific, guaranteed interest you've actually earned under the terms of your contract."

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On the Internet

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

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each customer. In addition, when offering or advertising an investment product to a customer, FDIC-insured institutions must indicate that the investment:

- Is not FDIC-insured;
- Is not guaranteed by the bank or savings institution; and
- Is subject to investment risk, including the possible loss of principal.

In addition, before an investment sale is completed, a customer must sign a statement saying that he or she understands that a particular investment carries risks and is not backed by the FDIC. "Investments often are an important part of a person's overall financial plan," says Amy Aulthouse Mitchell, a securities specialist with the FDIC in Washington. "We simply want customers to understand, before committing to an investment, that they would be moving beyond the protection of a deposit and into a product that may lose value."

Mitchell also notes that the bank regulatory agencies recently adopted similar consumer protections governing insurance sales. The new rules, which will become effective on October 1, 2001, require banking institutions to notify customers that insurance products and annuities are not FDIC-insured and, where appropriate, are subject to investment risk.

The rules also prohibit institutions from "tying" loan decisions to insurance sales. For example, a bank can't condition its approval of your auto loan on whether you buy car insurance from that bank or one of its affiliates. "In essence, the consumer is free to purchase the insurance from any source, and the bank must explain that to the consumer," says Keith Ligon, a supervision policy chief for the FDIC in Washington.

Final Thoughts

Times have indeed changed for you as a consumer. Banking institutions are now able to offer more choices to their customers, including financial products that are not FDIC-insured deposits. This freedom to choose among a variety of products can be very convenient and make it easier to manage your financial affairs. However, this freedom comes with the responsibility to be an informed consumer. We hope our story provides information and suggestions that will help you choose and use financial products wisely.

One thing that hasn't changed in all these years is the role of the FDIC in protecting America's consumers. FDIC insurance provides a guarantee that your insured deposits will be safe in the event your bank or savings institution fails.

The FDIC also is here to help you with your banking questions or problems. Our services include a toll-free consumer assistance phone line (see Page 7 of this newsletter) and an Internet site where you can get resource materials and send questions to the FDIC online at www.fdic.gov/consumers/questions/customer/. Among the FDIC publications describing what is or is not insured by the FDIC is "Your Investments," which is available online at www.fdic.gov/deposit/investments/investments/ or in single copies from the FDIC's Public Information Center (see Page 3). The FDIC offers assistance to individual consumers in a variety of ways because we share a common goal—to protect your money.

For More Help or Information Regarding the Array of Products Available

Here's where to turn for information about your rights or if you have a complaint you can't resolve directly with your financial institution.

Deposits and loans issued by federally insured depository institutions: Contact that institution's primary federal regulator. (See Page 7 of this newsletter.) If you have questions about FDIC insurance, including what is or is not covered, you may contact the FDIC directly (also as listed on Page 7).

Insurance products, such as life insurance policies and annuities: If you bought these products from a depository institution, you may contact its primary federal regulator with questions or concerns. For insurance purchases from any source, you also may contact your state's insurance regulator (look in the government pages of your telephone book or go to www.naic.org, the Web site of the National Association of Insurance Commissioners).

Stocks, bonds, mutual funds and other securities: If you bought the investment from a depository institution or an affiliate, contact the appropriate federal banking regulator. For matters involving securities brokers and brokerage firms, start with the U.S. Securities and Exchange Commission (Office of Investor Education and Assistance, 450 5th Street, NW, Washington, DC 20549; www.sec.gov) or your state securities regulator (in your phone book or from the North American Securities Administrators Association at 202-737-0900 or www.nasaa.org).

Did You KNOW...?

Credit Card Fees Often Go Unnoticed Even As They Increase

Credit cards offer great convenience to consumers, but that convenience comes at a price. In recent years, card issuers have raised or added new fees for their products and services. While these costs are described in the mailings and card agreements (contracts) consumers receive from card companies, too many people forget about these fees or aren't aware of them until after they've run up a sizable bill. ***FDIC Consumer News*** asked Janet Kincaid, a credit card specialist with the FDIC in Kansas City, for examples of fees that are becoming more common or more costly, yet still go unnoticed by many cardholders:

Monthly maintenance fees. Rather than charge an annual fee, some lenders impose a monthly fee, often from $6 to $12 a month, whether you use the card that month or not. "Many people don't blink twice over $6 a month—it doesn't seem so bad," Kincaid says. "But if they stopped to think that they're paying $72 a year just to be able to carry a card, they'd realize they could have done better by paying a lower annual fee."

Balance transfer fees. You've probably received mail from a credit card issuer trumpeting a "can't-beat-this" low Annual Percentage Rate (APR) of, say, 2.9 percent on any balance you transfer to that card from a competitor's card. But, there also could be a fee for the balance transfer that could outweigh the benefit of the low interest rate. In addition, there may be no grace period on the balance you transfer. "Interest often begins accruing the moment the balance transfer is completed," Kincaid explains. "Even if you paid off the balance by the due date, you may still incur interest charges."

Suppose you transfer a $100 balance at a special 2.9 percent APR to a card that otherwise charges a 15 percent APR, and you already have a $200 balance on that card from your previous purchases. Then let's say you send in a $50 card payment at the end of the month. It's important to know how that $50 payment will be applied. Will the payment go to reduce the "old" high-rate $200 balance or the "new" low-rate $100 balance you transferred? "The card issuer can decide how to allocate your payment, and unless you know the card issuer's policy by calling the company or checking your card agreement, you can assume the procedures will benefit the card issuer," Kincaid says.

Cash advance fees. When you use your credit card to get cash from an ATM, that's considered a loan, and you will incur interest charges immediately, without a grace period. But in addition, you may be charged a transaction fee by both the financial institution that holds your credit card *and* by the bank that owns the ATM you're using. The fee can either be a flat dollar amount or a percentage (perhaps three percent) of the cash advance. The fee can make a simple cash withdrawal fairly expensive. (See the related story about ATM fees on the next page.)

Fees for late payments. If you mail in your payment too close to the due date and miss the deadline, you could face a late-payment fee. These fees have increased in recent years from about $15 to as much as $29. You may face other penalties, such as having your interest rate raised or your card canceled. Here's another alternative to mailing a payment late: Consider calling your card company to authorize it to "debit" (deduct) your payment directly from your bank account before the deadline. "This convenience will cost you more than a postage stamp, usually as much as $10," says Kincaid, "but it's usually a better, cheaper option than paying late and incurring a penalty."

Fees for sending in less than the minimum monthly payment. Suppose you're expected to pay at least $50 for a card payment but you only have $25 available, so you send it in anyway. "Yes, you've made a payment," Kincaid says, "but anything less than the minimum can be considered a late payment, subject to a late-payment fee." Again, those fees have increased to as much as $29 at many institutions. And, because an insufficient payment is considered a late payment, you could be subject to other penalties, such as having your interest rate raised or your card canceled.

The lesson here? As we've said before in ***FDIC Consumer News***, read and understand a credit card offer before you commit to anything. And, monitor your monthly billings or other mailings for notices of fee increases or rule changes by your card company. New rules from the Federal Reserve Board also will make it easier to see and understand key information about the card's costs on the applications and solicitations. Example: Card companies for years have been generally required to clearly disclose the APR for purchases charged to a credit card, but soon they must present this information in 18-point type,

which is this large.

Compliance with the new rules becomes mandatory October 1, 2001.

News Briefs

Coming Soon: Mandatory Disclosure of ATM Fees

Under new rules from the Federal Reserve Board, if you use an ATM operated by an institution where you don't have an account, you must be notified early of any fee charged to non-customers and have the chance to end the transaction.

The Fed's rules implement provisions of the Gramm-Leach-Bliley Act of 1999 requiring ATM operators to post this fee information on a sign at the ATM as well as provide it on the machine's screen (or on a paper notice) before a consumer is committed to a transaction.

The new rules took effect March 9, 2001, but compliance isn't mandatory until October 1 of this year in order to give institutions time to make necessary changes to their ATM systems.

New Federal Web Sites Offer One-Stop Assistance

A new U.S. government Internet site, www.firstgov.gov, offers one-stop access to online consumer information from all federal agencies, including the FDIC. The site, managed by the General Services Administration, enables consumers to search through government documents for information on topics ranging from dieting to deposit insurance.

Also, a Federal Trade Commission database (www.consumer.gov/sentinel) originally maintained for the benefit of law enforcement agencies now has been expanded to offer consumers a central location for information about fraud and crime prevention. The same site also allows you to make reports about suspected instances of fraud so they can be shared with law enforcement officials in the U.S. and around the world.

Read This Before Recycling That Old Computer

Thinking about selling, donating or disposing of an old personal computer? If so, federal officials urge you to delete financial records, tax returns and other personal information from your PC.

Why? Because computer files often contain Social Security numbers, birth dates, bank account numbers and other personal information that can be used to commit "identity theft"—to make purchases or get cash using your name.

One source of information on the subject is a brochure originally published for National Aeronautics and Space Administration employees by NASA's Office of Inspector General but now available to the general public at www.hq.nasa.gov/office/oig/hq/harddrive.pdf. It includes this warning: Just choosing to "delete" files using the basic commands for your keyboard or mouse won't do the job, because the deleted information still can be easily retrieved from your computer's hard drive. The brochure instead suggests using software available from computer stores that is formatted to completely erase computer files.

How to Protect Yourself From Identity Theft by "Pretext" Callers

The Federal Trade Commission has published a brochure offering tips on how to protect yourself from a "pretexter." That's what law enforcement officials call someone who uses false pretenses to trick consumers or financial institutions into giving out (usually over the phone) personal information such as bank or brokerage account balances. A pretexter then sells those facts and figures to third parties.

To get a free copy of "Pretexting: Your Personal Information Revealed," call the FTC's Consumer Response Center toll-free at (877) FTC-HELP (that's 382-4357) or read it online at www.ftc.gov/bcp/conline/pubs/credit/pretext.htm.

Note: The Gramm-Leach-Bliley Act also made pretexting a federal crime, and the FTC has brought charges recently in several cases. Also, the FDIC and other bank regulatory agencies have issued guidance to financial institutions about how to protect customer information from pretext callers.

Our Consumer News Arrives by E-Mail

The FDIC offers our quarterly ***FDIC Consumer News*** by e-mail sent directly to your computer at home or work. After each new edition is posted to our Web site, you can get an e-mail telling you about the issue and linking you to any story that interests you. You'll find out about the newsletter as soon as it's published, it can't get lost or delayed in the mail, and you can share stories with anyone who has an e-mail address. The online version contains the same information as our printed newsletter.

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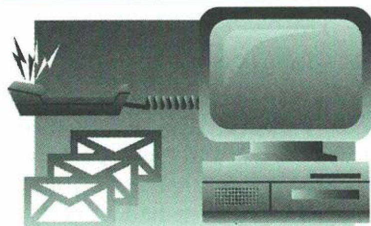


For questions about consumer or civil rights laws, or complaints involving a specific institution: First attempt to resolve the matter with the institution. If you still need assistance, write to the institution's primary regulator listed on this page. Although the FDIC insures nearly all banks and savings associations in the United States, the FDIC may not be the primary regulator of a particular institution.

For questions about deposit insurance coverage: The FDIC insures deposits up to $100,000 at federally insured banks and savings associations. For more information, contact the FDIC's Division of Compliance and Consumer Affairs. The National Credit Union Administration insures deposits up to $100,000 at federally insured credit unions. Addresses and phone numbers are listed on this page.

Federal Deposit Insurance Corporation
Supervises state-chartered banks that are not members of the Federal Reserve System. Insures deposits at banks and savings associations.

FDIC, 550 17th Street, NW
Washington, DC 20429

Toll-free Phone: **(877) ASK-FDIC or (877) 275-3342**
TTY: **(800) 925-4618**
8:00 a.m. to 8:00 p.m. Eastern Time

Home Page: **www.fdic.gov**

For written inquiries about deposit insurance or consumer protection laws, or to submit a complaint about an FDIC-supervised institution:

FDIC Division of Compliance and Consumer Affairs

Mail: **See address at left**

Fax: **(202) 942-3098**

E-Mail: Use our Customer Assistance Form on the Internet at **www2.fdic.gov/starsmail/index.html**

For written inquiries involving problems or complaints related to the FDIC:

FDIC Office of the Ombudsman

Mail: **See address at left**

Fax: **(202) 942-3040**

E-Mail: **ombudsman@fdic.gov**

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.)

Customer Assistance Unit
1301 McKinney Street
Suite 3710
Houston, TX 77010

Phone: **(800) 613-6743**

Fax: **(713) 336-4301**

Home Page:
www.occ.treas.gov

E-mail:
consumer.assistance @occ.treas.gov

Federal Reserve System
Supervises state-chartered banks that are members of the Federal Reserve System.

Division of Consumer and Community Affairs
20th Street and Constitution Ave., NW
Washington, DC 20551

Phone: **(202) 452-3693**

Fax: **(202) 728-5850**

Home Page:
www.federalreserve.gov

National Credit Union Administration
Charters and supervises federal credit unions. Insures deposits at federal credit unions and many state credit unions.

Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314

Phone: **(703) 518-6330**

Fax: **(703) 518-6409**

Home Page:
www.ncua.gov

E-mail:
pacamail@ncua.gov

Office of Thrift Supervision
Supervises federally and state-chartered savings associations plus federally chartered savings banks. (The names often identify them as savings and loan associations, savings associations or savings banks. Most federally chartered savings associations have the word "Federal" or the initials "FSB" or "FA" in their names.)

Consumer Affairs Office
1700 G Street, NW
Washington, DC 20552

Phone: **(800) 842-6929 or (202) 906-6237**

Home Page:
www.ots.treas.gov

E-mail:
consumer.complaint @ots.treas.gov

Some banking matters may involve state laws. For assistance, contact the appropriate state financial institution regulatory agency or state Attorney General listed in your telephone book and other directories.

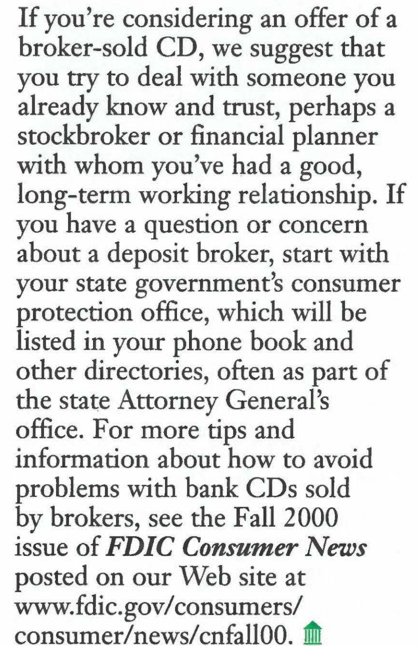
Congress Acts to Stop Deposit Brokers from Claiming FDIC Endorsement

Congress has acted to prevent unscrupulous deposit brokers from winning the trust of consumers with misleading advertising that implies they are endorsed by the FDIC.

The problem that Congress is attempting to fix involves deposit brokers who falsely advertise or suggest that they are "FDIC-approved" or "FDIC-registered." Deposit brokers have never been endorsed, registered or examined by the FDIC. However, some brokers have represented to the public that they were FDIC-approved based on a 1991 law that required brokers to *notify* the FDIC if they were placing customers' deposits in an insured institution. But that notice requirement was simply for information-gathering purposes, and it did not give the FDIC any authority to regulate or supervise the activities of deposit brokers.

To prevent further confusion and misrepresentation, the FDIC asked Congress to eliminate the notification requirement, and the lawmakers did so in December 2000. "Deposit brokers may no longer imply or advertise that they have a seal of approval from the FDIC," says Kathleen Nagle of the FDIC's consumer affairs division in Washington.

As reported previously in ***FDIC Consumer News***, deposit brokers who sell bank-issued certificates of deposit sometimes negotiate a higher interest rate than a traditional CD sold directly by a bank, but the broker-sold CDs may have terms and conditions that pose greater risks to the consumer. Unfortunately, some brokers have misinformed customers about these risks. For example, some deposit brokers have used misleading tactics to sell CDs with 20- or 30-year maturities to elderly people who thought they were purchasing one-year CDs.



If you're considering an offer of a broker-sold CD, we suggest that you try to deal with someone you already know and trust, perhaps a stockbroker or financial planner with whom you've had a good, long-term working relationship. If you have a question or concern about a deposit broker, start with your state government's consumer protection office, which will be listed in your phone book and other directories, often as part of the state Attorney General's office. For more tips and information about how to avoid problems with bank CDs sold by brokers, see the Fall 2000 issue of ***FDIC Consumer News*** posted on our Web site at www.fdic.gov/consumers/consumer/news/cnfall00.

Federal Deposit Insurance Corporation
Washington, DC 20429-9990

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