FDIC Consumer News

Spring 2000

Paper or Plastic?

Your decisions aren't over when you make up your mind to buy a product or service. Next comes figuring out your best way to pay. Here's our guide to the potential risks and rewards of using cash, checks, credit cards or debit cards.

Illustration: T.W. Ballard

You're browsing at a local store and you see the lamp you've been searching for, the last one left, drastically reduced to $100. You know you can't live without it, but you also know you want to be able to return it if you find out the lamp doesn't work after you get it home. How should you pay to best protect yourself? Give cash and get a receipt? Write a check? Pull out a credit card? Or use your debit card to deduct the payment from your bank account electronically?

INSIDE

If you're like many people who've been in situations like this, chances are you made a quick decision about the payment without paying much attention to the potential costs, consumer protections, or other factors. In our example, your best move probably would be to put that lamp on your credit card before you put it on your end table. Why? Because under the Fair Credit Billing Act, if you happen to charge a defective item that's more than $50 from a merchant in your home state or within 100 miles of your home, "you have a right to return it to the merchant and get the charges reversed, unless you clearly accepted the item in an 'as is' condition or in a transaction where all sales are final," says Robert Patrick, an FDIC consumer law attorney based in Washington.

Every payment method has its virtues and shortcomings, and much depends on your personal preferences and the specific situation. Still, you need to know enough about your payment options to make informed decisions. "Consumers are not stupid about banking issues, but they often are ignorant about the most efficient choices for themselves," says E. Thomas Garman, a professor at Virginia Polytechnic Institute and State University in Blacksburg, VA, and director of Virginia Tech's National Institute for Personal Finance Employee Education.

FDIC Consumer News wants to help you understand your rights and the potential risks and benefits when it comes to the most common ways to pay for things. Starting on the next page, we've compiled information we hope can save you time, money and hassles when you make purchases, even over the phone, on the Internet or through the mail. We want you to be smarter and safer the next time someone asks that familiar question, "And how would you like to pay for that?"

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Cash

How It Works

You pay the merchant (or other provider of goods or services) in U.S. bills or coins. The merchant can immediately use the money for new transactions or deposit the cash at the bank.

Major Pluses

Cash is familiar and easy to get and use. Automated teller machines (ATMs) now make cash available 24 hours a day, seven days a week. And the basic consumer payment in cash is simple, involving no fees, cards, machines, security numbers, ID checks, or other time-consuming steps.

"Cash usually is the cheapest way to go—no fees, no service charges, no interest payments," says Kathleen Nagle of the FDIC's Division of Compliance and Consumer Affairs in Washington. One possible exception: If you use ATMs a lot, you may find yourself running up significant fees, especially if you're not using your own institution's machines.

What else makes cash so popular? It's accepted by other consumers as well as by all merchants, including businesses that won't always take your check, credit card or debit card. You can't get in debt using cash because it's money you already have. And, if privacy is a concern, cash allows you to pay for something anonymously.

Potential Problems

Cash doesn't provide the solid consumer protections that exist for other forms of payment. (See next section.) If you don't keep good records and receipts, you won't have a paper trail to help resolve disputes or help you track your spending for money management purposes. Bills and coins also can easily be lost or stolen.

Consumer Protections

With cash, there are no specific state, federal or industry protections if you pay for a product or service that turns out to be a dud. However, you may be protected by general laws in your state governing business and trade, according to FDIC attorney Patrick. "The fact that you paid in cash wouldn't negate the applicability of laws against unfair trade practices," he says. Example: If you paid cash for a bad product and you've got a receipt, you might have a case under state law that there was a breach of contract or a breach of warranty. But even so, Patrick adds, "if you can't resolve this on your own you might have to go to court," which can be costly, time-consuming and frustrating.

You can't stop payment (as with a check) or dispute payment (as with a credit card) if you run into a problem with the person or company that sold you the goods. That's especially a problem with big-ticket items.

More Words of Wisdom

Always get and keep receipts, written warranties and other documentation. Without them, it's your word against the merchant's in a dispute, and those battles can be hard to win.

Don't depend on the merchant to get you the right backup records if there's a question about a payment. "Under state law, if there's a dispute between a buyer and a seller over a payment, the burden of proof is on the buyer, and not the other way around," says FDIC attorney Patrick.

Don't carry too much cash or leave it in your home or office, even if you find a nice hiding place for it. If you need more cash, you should be able to get it from a nearby ATM.

The Most Popular Payment Award Goes To...

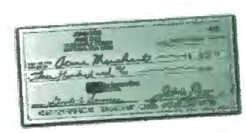
What's the #1 payment of choice for American consumers—cash, check, credit card or debit card?

The answer: Cash, by far. A recent article by economist Stuart E. Weiner of the Federal Reserve Bank of Kansas City says that an estimated 50 percent or more of the total number of transactions in the U.S. involve cash.

Checks are the second most popular form of payment. The article reports that checks totaled 72 percent of the non-cash transactions in the U.S. in 1997, far ahead of credit cards at 18 percent, Automated Clearing House transactions (such as automatic bill payments) at five percent, and debit cards at four percent.

Personal Checks

How They Work



You write a check—essentially an order instructing your bank to pay a particular merchant a specified sum of money, using funds in your account at that bank. To collect the money, the merchant probably will deposit the check. It'll take about one to five business days before the money is transferred out of your account. However, there are new ways for merchants and other vendors to process checks electronically and reduce the time it takes for the funds to be deducted from your account.

Major Pluses

Checks are familiar and easy to use or mail. They also are routinely accepted by merchants as well as by utilities, landlords, mortgage lenders, credit card companies, and other major service providers, although sometimes with limits. As with cash, checks also are widely accepted by other individuals.

Paying by check can be a good way to avoid overextending your family finances and to build a good payment history. Checks also are good for people who just aren't comfortable with newer forms of electronic payment, such as debit cards.

Checks also create a paper trail that can be followed if there's a dispute over who got paid or how much. If your bank doesn't routinely return canceled checks but you need some for your records, you have a couple of options, according to Cynthia Bonnette, a bank examination specialist with the FDIC in Washington. "You can make a special request for copies of checks, possibly for a fee," she says. "Or, if you bank at home by personal computer, your checks' images may be offered as part of that service."

A few types of checking accounts also earn interest. And last but not least, checking accounts, as with any other deposit accounts, are protected up to the $100,000 insurance limit at federally insured institutions (by the FDIC for banks and savings institutions, or the National Credit Union Administration for credit unions).

Potential Problems

Some merchants don't accept personal checks. You can't take extra time to pay, as with credit cards. Writing and mailing checks also takes time and money. Checks also can easily be lost or stolen.

Consumer Protections

Most of the consumer protections for checking accounts are covered by state laws under the Uniform Commercial Code (UCC), although these "uniform" laws can vary by state. Payments by check are not covered by the consumer protections in the Fair Credit Billing Act applicable to credit card purchases (see Page 5).

What can you expect under state laws? They may, for example, limit your losses if someone steals your checks and forges your signature. You also have the right under the UCC to stop payment on a check, but you have to act quickly (before your check clears) and be prepared to defend your action when the merchant demands payment.

More Words of Wisdom

Do some comparison-shopping every few years to make sure you're still getting a good deal on your checking account, in terms of fees, minimum balance requirements, and so on. Many banks offer special deals if you arrange for direct deposit of your paycheck (which also can help prevent bounced checks because the money goes into your account at the earliest possible date).

Use your checking account responsibly. Keep your checkbook balanced so you don't mistakenly overdraw your account (which can result in fees and a bad mark in your payment history). Monitoring your account also can help you spot errors or unauthorized transactions. And, on the topic of unauthorized transactions, take simple precautions to keep thieves away from your checks. Examples: Don't carry more checks than you need, and keep extra checks in a secure place.

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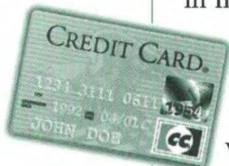
Credit Cards

How They Work

Using a credit card is much like taking out a loan when you buy goods and services. When you present your card to a merchant, the cashier will electronically contact your card issuer (generally a bank or other financial institution) through the card network (Visa or MasterCard, for example) to verify your account number, expiration date and credit availability. If everything checks out, the card network will authorize the transaction. The merchant will collect the money from the card network, which will collect the money from your card issuer, which will bill you for the money in your next statement. There also are charge cards offered by retailers, oil companies and other corporations, primarily limited to purchases you make from them.



Depending on your personal situation or the repayment terms of the card you carry, you'll either pay your credit card bill in full each month and (usually) be charged no interest, or you'll carry a balance on the card from one month to the next and pay interest on that debt.

Major Pluses

With credit cards, you can buy goods and services now and pay for them later—much later than with a check or debit card. That's a big plus if you want to buy a big-ticket item (such as furniture or a computer) and you want to pay for it over time, even if it means interest charges.

Credit cards are easy to use and are widely accepted—when buying in other cities and countries, on the Internet, through the mail or over the telephone. (They're not accepted by individuals and some small businesses, however.) Credit cards also can be especially helpful in an emergency, such as paying for unexpected medical care and expensive auto repairs. In addition, card issuers often throw in freebies for using their card, including cash rebates, bonus points good toward airplane tickets, and even automatic extensions of manufacturer warranties.

Among the other big pluses of credit cards: They offer excellent consumer protections. (See the next column.) You can consolidate multiple purchases into one monthly bill that you can pay with just one check. They're less bulky and safer to carry than a wad of cash. (If you want more of the green stuff, you can even use your credit card to get a cash advance from a financial institution or an ATM, but this is a loan that also comes with a fee.) Credit cards also are easy to replace if lost or stolen, even if you're far from home. The same can't be said for cash or checks.

Potential Problems

Interest charges, fees and penalties can add up, especially if you don't understand how your card works. "Too many consumers think that every bank gives them 20 or 30 days before charging interest, but that's not the case with many banks today," warns the FDIC's Nagle. Professor Garman of Virginia Tech adds that consumers who pay interest on credit card purchases forget that they are paying more money than if they used cash or a check. "After adding in the finance charges, which are typically 18 percent, you have the opposite of buying things on sale," he says. "It's like marking up your purchases an additional 18 percent, if not more." Consumers who make only the minimum payment on their credit card bill also can add significantly to their interest charges.

Consumer Protections

Credit cards may offer your best legal remedies against billing errors, damaged merchandise and other woes that buyers encounter.

The federal Truth in Lending Act (TILA) limits your losses to a maximum of $50 if your credit card is lost or stolen. The Fair Credit Billing Act (FCBA), part of the TILA, protects you against billing mistakes and unauthorized charges. It also allows you to withhold payment on defective goods until the problem has been corrected, provided certain conditions are met. (See the box on the next page for more details.) The FCBA is a big reason why most experts advise consumers to use credit cards—not cash, checks or debit cards—when paying for big ticket items or services that you want to know will work as promised.

More Words of Wisdom

The credit card is one of the best innovations of the 20th century, but you have to be smart in how you use it.

If at all possible, pay off your credit card balances each month so you can avoid or minimize interest charges. If you expect to carry a balance most months, consider using a card with a low Annual Percentage Rate (APR) and a grace period for new purchases before finance charges are imposed. And do your best to be aware of fees and service charges so you don't trigger them by accident.

Many people wonder if they should use their credit card to pay for small, everyday living expenses, such as gas or groceries. Here's one possible approach: If you're going to pay off your credit card bill each month and you can do so without incurring an interest payment, using your card for small purchases may be a convenient way to consolidate your payments. But if you're unlikely to pay off your card balance each month, many experts say you'd be better off using cash, checks or debit cards, because those small purchases will cost significantly more once you add in the interest charges.

Remember that there's always the potential to become "overextended" with debt, from credit cards or any other loans. If you think you've got a debt problem, think twice before using your credit card, and find ways to spend less and save more. For more suggestions, see our money management tips on Page 13.

Also, do your part to prevent credit card fraud. Some simple precautions: Keep your card safe, and be sure to sign the back of the card as soon as it arrives.

Your Rights When a Bill Is Wrong

The following federal laws protect you from mistakes on credit card bills and bank account statements. Depending on the situation, consumer protections also may exist in state laws.

The Truth in Lending Act (TILA) sets a $50 maximum loss if your credit card is lost or stolen. You're not responsible for any charges made after you report the credit card lost or stolen.

The Fair Credit Billing Act (FCBA), part of the TILA, protects against inaccurate credit card bills, including a wrong dollar amount or a charge for something you didn't buy. This law also allows you to withhold payments on defective goods or services purchased with a credit card, provided certain conditions are met. In general, the purchase must be for more than $50 from a merchant in your home state or within 100 miles of your home. To dispute a billing error, you must report the problem to the creditor in writing—a phone call isn't sufficient—and your complaint must be received within 60 days after the creditor sent you the statement being questioned.

The Electronic Fund Transfer Act (EFTA) protects you against accounting errors and unauthorized withdrawals via an ATM, debit card, home computer or other electronic transaction:

- If you believe there's an error on your statement, you must contact your financial institution within 60 days after the statement containing the problem was sent. Your institution also must promptly investigate the matter and resolve it generally within 45 days. (In some cases, the bank may take up to 90 days to resolve your problem.)
- If a thief has used your ATM card or debit card, the law limits your losses to $50 if you report an unauthorized withdrawal within two business days of discovering the loss or theft of your debit card. However, you could lose as much as $500 if you wait longer than two days. If you wait more than 60 days after receiving a bank statement that includes an unauthorized transfer, the law doesn't require your bank to reimburse you for any losses due to unauthorized transfers made after the 60-day period. (Note: The banking industry has voluntarily put a $50 liability limit on "off-line" debit card transactions, which do not require a PIN number for extra protection.) In all cases, you're not responsible for money withdrawn *after* you notify your bank about a lost or stolen card.

Debit Cards

How They Work

Debit cards look like credit cards but work more like checks because the money is deducted directly from your checking or savings account. The consumer or merchant runs the card through a scanner that enables the bank or bank network to electronically verify that the funds are available and approve the transaction. There are basically two kinds of debit cards, although many cards function as both types:

• An "on-line" card deducts the money from your account almost immediately and, for safety reasons, requires the use of a Personal Identification Number (commonly known as a PIN number). You also can use this type of debit card to withdraw money from an ATM.

• An "off-line" card doesn't always immediately deduct the money from your account—the funds may not be transferred for a few days—and you sign a receipt instead of using a PIN number. The off-line card also is known as a "check card" because of its similarity to the way a check is signed and paid.

Debit cards also have other features of a checking account, including overdraft protection (for a fee) and a monthly statement listing your use of the card.

Major Pluses

Using a debit card is easier and faster than writing a check. It's also a good way to pay for small or routine purchases without having to pay interest charges.

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Debit cards are widely accepted by merchants, including in far-away cities and countries. Even a merchant who won't accept your check may accept a debit card, because there's a greater assurance that the payment will go through. Note: Your ability to use a card at any specific store or ATM, though, will depend on the type of debit card and the card "network" your financial institution belongs to.

Potential Problems

Consumer protections for debit cards generally aren't as strong as those for credit cards. (See next section.) Also, because funds are deducted from your account very quickly, don't expect to have the option to stop payment in a dispute or replenish your account if your balance is low. Debit cards also are not accepted as payment by individuals and some small businesses.

Consumer Protections

The Electronic Fund Transfer Act (EFTA) offers protections if you believe there's an accounting error or if a thief uses your debit card or card number. However, in the event of an unauthorized transfer from your account, it's important to promptly notify your card issuer. If you wait too long, there's even the potential for unlimited loss on unauthorized transfers made more than 60 days after receiving a bank statement with the first signs of theft. "That means you could lose all the money in your account plus your maximum overdraft line of credit, if you have one," says Jeanne Hogarth of the Federal Reserve Board's consumer affairs staff in Washington.

One break for consumers, though, came when the banking industry agreed recently to *voluntarily* limit the liability for off-line debit cards (those that don't require the use of a PIN), generally to the same $50 limit that exists for credit cards. (See the box on Page 5 for more details about the EFTA.)

More Words of Wisdom

Immediately deduct your debit card transactions and fees from the balance in your checkbook, and balance your checkbook regularly so you don't overdraw your account. Also, keep your debit card receipts so you can compare them to your bank statement.

How can you protect your account against unauthorized transactions by a thief? We gathered these tips:

• Understand your card's security features and the different consumer protections that apply to the different types of cards. "A card that is only protected by a signature requirement, if lost or stolen, can more easily be used for unauthorized transactions," says the FDIC's Bonnette.

• Safeguard your account number and PIN. "Just knowing your card number can be enough for a crook, perhaps in conjunction with a dishonest retail employee, to make purchases in your name and gradually drain your bank account," says Steve White, a fraud investigator for the FDIC in Washington. His recommendations: Take home your receipts (which may have account numbers printed on them) instead of leaving them in the trash. Shred the receipts after you've verified the accuracy of your monthly statement. Don't write your PIN number on your card or leave it in your purse or wallet—memorize the number instead. And, always stand so that no one can see the keypad at the ATM or checkout counter where you punch in your PIN number.

• Check your monthly bank statement and balance your accounts each month in order to spot an unauthorized transfer. Federal Reserve staffer Hogarth also suggests that, between bank statements, you should look at the account balance printed on your ATM receipts. A suspicious drop in your balance could be a sign that a thief has tapped into your account.

Some More Ways to Pay

Computer Banking: Also known as "home banking" and "online banking." This service allows you to pay bills, move money, or do other banking 24 hours a day using your computer.

Direct Payment: A way to automatically pay bills (such as your mortgage or health club dues) without writing and mailing checks. It usually involves giving a voided check and written permission to withdraw from your account electronically.

Telephone Banking: Enables you to pay bills any time using a touch-tone phone. Dial in and then enter your account number, personal identification number (PIN), a code for the company you want paid, and the dollar amount.

Telephone Debit: Over the phone, you authorize a merchant to electronically withdraw from your checking account, and you provide your bank routing and checking account numbers off your check. This payment method can prevent late fees on bills or speed the delivery of goods. (Note: Only give this information to reputable merchants when you initiate the call, and not in response to unsolicited calls, which may be fraudulent.)

Shopping at "Home Safe Home"

Shopping and buying from home—on the Internet, over the phone, through mail order catalogs or door-to-door sales—is certainly convenient. But there also are potential risks, including invasions of privacy and brushes with fraud artists and irresponsible vendors. How can you protect yourself? The following tips were developed by the Federal Trade Commission (FTC) in cooperation with other government agencies and consumer groups for National Consumer Protection Week (February 14-20, 2000):

• **Know who you're dealing with.** Fraudulent people and companies masquerading as reputable ones are increasingly taking advantage of consumers who shop from home. Anyone can create a flashy Web site or send what appears to be a friendly e-mail, so buy from companies you know are legitimate. There's no fail-safe way to check up on an unfamiliar seller, but you might want to ask friends, your local consumer protection agency, the state's Attorney General's office or the Better Business Bureau.

• **Protect your privacy.** Provide personal information only if you know who's collecting it, why and how it's going to be used.

• **Pay with a credit card.** If the product doesn't arrive or if you believe it was misrepresented to you, you're legally entitled to specific protections if you paid with a credit card. In addition, if you have an unauthorized charge on your credit card bill, your liability under federal law is limited to $50.

• **Think it through.** Don't act on impulse or buckle under to high-pressure tactics. Legitimate vendors won't push you to make an on-the-spot decision.

• **Keep records of your purchase.** Write down or print out information about the transaction, including the seller's name, address and phone number, plus the name of the person you spoke with. Get a complete description of the terms of the transaction, shipping and handling costs, and the return policy in case you're not satisfied.

• **Take extra precautions when shopping on the Internet.** Deal with a vendor that posts its privacy policies online and offers you options about how your personal information (such as details about your buying habits) may be shared or sold to other marketers. In most cases, the password you establish with the vendor, your credit card number and your delivery address should be enough information for a seller to take your order. Look for symbols (such as a locked padlock or unbroken key) on the screen that mean the information you are sending is encrypted (or turned into secret code) and that your credit card information is protected. It's also a good idea to choose a different password every time you register with a new Web site.

• **Seek help if you run into a problem.** If you can't resolve a dispute on your own, contact your state Attorney General's office, the Better Business Bureau or the FTC's toll-free help line at 877-FTC-HELP (382-4357).

For more tips, contact the FTC at the toll-free number listed above, write the Consumer Response Center, FTC, 600 Pennsylvania Avenue, NW, Washington, DC 20580, or visit http://www.consumer.gov/ncpw/index.html.

For More Information About Payment Options

• **Financial Regulators of Depository Institutions.** These agencies, listed on Page 15, offer publications, Internet sites, staff and other resources that can help answer your questions about checking accounts, credit cards and other bank products.

• **The Federal Trade Commission.** The FTC enforces a variety of consumer protection laws, especially those involving unfair or deceptive sales practices, and it publishes many brochures for consumers. Call toll-free 1-877-382-4357; write to the FTC's Consumer Response Center, 600 Pennsylvania Avenue, NW, Washington, DC 20580; or go to its www.ftc.gov Web site.

• **State Governments.** Many consumer protections, especially those involving checking accounts, are based on state laws. Contact your state's Attorney General's office or consumer protection office as listed in your phone book or other directories.

• **The Better Business Bureau:** A private, non-profit organization that provides information that can help consumers make buying decisions. It also often helps consumers and businesses resolve disputes. Start by contacting the local Bureau listed in the phone book or go to www.bbb.org on the Web.

• **Your Financial Institution.** Call the local or toll-free number for the customer service department as listed in your phone book, on your monthly statement or on the back of your credit card or debit card. These institutions also may have useful Web sites.

The Top 10 Mistakes That Cost Depositors Money When a Bank Fails... and How to Avoid Them

No one has ever lost a penny of FDIC-insured funds, but some people occasionally lose money over the insurance limit. While many of these consumers knew that their deposits exceeded the insurance limit, some did not. We want you to learn from them.

When a bank fails, insured deposits are completely safe. Historically, more than 99 percent of the deposits in FDIC-insured bank failures have been fully protected. But that also means that some depositors occasionally *have* lost money because they had accounts over the insurance limit. (In one extreme example from a recent bank failure, a customer with $1.4 million in deposits found out that his accounts were only insured for $415,000—*a loss of nearly $1 million.*) Sadly enough, uninsured depositors could have had their money fully protected if they had been more careful to keep their deposits within the insurance limit.

"The hardest part of my job is telling depositors they have lost money, and the more they will lose, the harder it is to tell them," says Kathleen Halpin, an FDIC insurance claims agent based in Dallas, Texas. "This is one part of my job that does not get easier the more I do it."

Fortunately, you don't need to worry about your deposit insurance coverage if you or your family have less than $100,000 in all your accounts combined at the same insured institution. But if your accounts total $100,000 or more, and having all of your funds protected by FDIC insurance is important to you, it makes sense to be sure they're within the insurance limit. (Yes, it's possible under the rules to have more than $100,000 on deposit, even far more, and still be fully protected.)

To help you avoid repeating the mistakes of others, ***FDIC Consumer News*** has compiled the following list of the "Top 10" situations in which depositors have lost money in a bank or savings institution failure.

This informal survey, based in part on discussions with FDIC insurance specialists around the country, shows that the rules governing joint accounts and revocable trust accounts (a type of payable-on-death or "POD" account) still seem to present the most problems even though the FDIC revised the rules for these two accounts in April 1999 to make them easier to understand.

> *"The hardest part of my job is telling depositors they have lost money, and the more they will lose, the harder it is to tell them."*
>
> *Kathleen Halpin, FDIC insurance claims agent*

1 Overestimating the insurance coverage of joint accounts.

Depositors incorrectly assume that they can establish multiple joint accounts with different parties and have each account separately insured. While the FDIC simplified the joint account rules in 1999, there still are important limits for you to understand. Under the new rules, the FDIC looks at each person's share in all the joint accounts he or she owns at one institution and insures that sum up to $100,000, no matter how many joint accounts or co-owners there may be.

For example, suppose you have two joint accounts at a bank—one with your spouse for $140,000 (with your share presumed to be $70,000), and a separate joint account with your brother for $120,000 (your share being $60,000). Your total insurance coverage for joint accounts would be $100,000, leaving $30,000 (your remaining share of the two joint accounts) uninsured.

To clarify another misconception about joint accounts, the insurance coverage isn't increased by such things as whose Social Security number or name is listed first. You also can't increase your joint account coverage by varying your name, such as by showing James on one account and Jim on another. You also can't increase coverage by using "or" between the names rather than "and."

Before leaving our discussion of joint accounts, here are some words of caution: Make sure all co-owners sign the account's signature card, if there is one. Also, if you intend to add another person to your individually owned account as a "convenience signer," perhaps to give someone else the right to withdraw money on your behalf in an emergency, make sure that distinction is reflected in the deposit records. If that intention is not specified, the account may be insured as a joint account and that could possibly decrease your deposit insurance coverage.

2 Not understanding the insurance coverage of revocable trust accounts.

Revocable trust accounts give you the use of the money during your lifetime as the account owner, but the funds pass to specific beneficiaries when you die. They're also known by other names, including testamentary, payable-on-death, tentative, Totten trust, and "In Trust For" accounts.

Under the FDIC's rules, which were amended in 1999, each "qualifying" beneficiary's interest in a depositor's revocable trust accounts is insured up to $100,000, separately from any individual or joint accounts that you or your beneficiaries may have in the same institution, but *only* if certain conditions are met. In particular, the qualifying beneficiaries must be your spouse, children, grandchildren, parents or siblings. Other relatives, in-laws or friends do not qualify.

So, a $300,000 revocable trust account payable on death to a spouse, a parent and a sibling would be fully insured ($100,000 for each beneficiary). But if you named a non-qualifying beneficiary, such as a nephew, a sister-in-law, a great-grandchild or a friend, the portion payable to the non-qualifying beneficiary would be insured as your individually owned funds, limited to $100,000. Example: A $300,000 revocable trust you own that's payable to three friends would be combined with your individual accounts and insured only up to $100,000, *not* to $300,000.

Some consumers make deposits pursuant to formal revocable "living trust" agreements. The problem is that most living trust accounts don't qualify for $100,000 of insurance per beneficiary because the trust agreements place conditions on the interests of the beneficiaries. Examples: The beneficiary must get a college degree, or any payments to the beneficiary will be at the discretion of the trustee. These conditions mean that each beneficiary may or may not receive funds after the owner dies. In these cases, the money will be insured up to $100,000 as the grantor's individually owned funds, along with any other individual funds he or she held at the same bank, and not up to $100,000 per beneficiary.

3 Confusing joint accounts with revocable trust accounts.

In a recent closing, many depositors thought they had established joint accounts when in fact they had established revocable trust accounts, resulting in some funds being over the insurance limit. A possible example: A father opens a $300,000 account payable on death to a son and daughter, believing it's a joint account with the son and daughter insured to $300,000. But the father really has established a revocable trust or POD account, insured up to $100,000 for each child. Here, the $300,000 balance is insured up to $200,000 ($100,000 for the son and $100,000 for the daughter), leaving $100,000 uninsured. (Note: In this example, because the only designated beneficiaries are qualifying beneficiaries, the excess amount of $100,000 is not insured with the father's individually owned funds.)

"This unfortunate error caused many depositors to lose a lot of money," says Lesylee Sullivan, another Dallas-based FDIC claims agent.

4 Third-party deposits without your knowledge.

Suppose an attorney, real estate agent or some other person handling funds on your behalf makes a deposit into an escrow-type account at an institution where you already have accounts. That could happen, for example, when you sell your house or when you receive money from a lawsuit or an insurance claim. If the institution fails, those deposits would be combined with your other accounts and perhaps put you over the $100,000 limit. If you think a third-party deposit is going to be made, find out the details and make alternate arrangements, if necessary.

5 Not allowing for official checks to "clear."

If customers hear reports that a financial institution is about to fail, they may attempt to bring their accounts below the insurance limit by obtaining a "cashier's check" or some other "official check" drawn on that institution. But, until that check is cashed and clears through the check payment system, it is still legally considered a deposit at the failed bank. That check and any other deposits at the closed institution would be added together for insurance purposes.

Also, if you decide to close your accounts and combine them into one "official" check (one drawn on the bank) with you as the sole payee, keep in mind that the check will be insured as your individual deposit and only insurable to $100,000. The FDIC will *not* base its insurance determination on where the funds came from. That means, for example, if you receive an official check made payable to you alone for money that previously had been in a joint account insured to $200,000, it now would only be protected to $100,000 along with your other individually owned accounts.

6 Believing that interest earned is separately insured.

Many depositors believe that if they deposit $100,000 in a certificate of deposit (CD) and it earns $600 of

continued on next page

interest, each portion would be separately insured. But under the rules, principal and interest are added together and insured to a maximum of $100,000.

Some depositors receive their earned interest in a separate check. For example, a person might have a $100,000 CD for which the depositor receives a $600 check at the end of each month. But suppose the depositor does nothing with these interest checks for five months and then the unthinkable happens—the bank fails. Instead of having just a $100,000 CD and a few days' accrued interest, the depositor has that *plus* $3,000 in uncashed interest checks that, under the rules, must be combined for insurance purposes. Again, because the checks weren't cleared through the banking system, they are still considered to be on deposit and are added together with the other deposits you own.

7 Not adjusting accounts in a timely manner after a depositor dies.

The FDIC's insurance regulations were amended in July 1998 to ease the potential financial hardship on depositors who have lost a loved one. For six months after someone's death, the FDIC will insure that person's accounts as if he or she were still alive. During this grace period, the insurance coverage of the deposit owner's accounts will not change unless the accounts are restructured by those authorized to do so. The FDIC applies the grace period only if its application would increase, rather than decrease, deposit insurance coverage.

Still, many people fail to act within the six-month grace period. Here's an example of what would happen: Joint accounts between a husband and wife would automatically become part of the surviving spouse's individual accounts at the bank unless a change was made within six months. That could put the survivor's individual accounts over the $100,000 insurance limit, potentially resulting in a financial hardship for a family already in grief.

8 Believing that IRAs and Keoghs are fully insured regardless of the deposit balance.

FDIC claims agents have recently encountered situations where depositors at failed institutions had Individual Retirement Accounts (IRAs) or Keogh plan accounts (similar to an IRA but for the self-employed) totaling well beyond $100,000. "Most of these IRA and Keogh depositors have been surprised to find themselves uninsured," says the FDIC's Sullivan. "The misconception is that retirement accounts are fully insured regardless of the amount, which is not the case."

Here's a quick overview of the FDIC's rules for retirement savings:

- IRAs and self-directed Keogh funds are separately protected from any non-retirement funds you may have at an insured institution, and they are added together and insured up to $100,000 in total.
- The Roth IRA created by Congress in 1997 is treated the same as a traditional IRA for deposit insurance purposes.
- The new Education IRA is not considered an IRA for deposit insurance purposes. Because of its features, the Education IRA is insured as an "irrevocable trust account." Such accounts *may* be insured up to $100,000 per beneficiary, but often they are insured only up to $100,000 for the entire trust. Some or all of the funds in an irrevocable trust account may even be insured as the depositor's single ownership funds. The coverage depends on the terms of the trust.

9 Not understanding the potential problems when depositing funds through a broker.

Many folks use deposit brokers to place funds for them in various FDIC-insured financial institutions. Typically, the broker will pool funds from many clients and make a single deposit in a financial institution on behalf of the many customers. While this arrangement is permissible, you still need to be careful.

Example: Your broker may put some of your funds in an institution where you, on your own, have made deposits. "If you find that out only after the institution has failed, you could have some money uninsured," Halpin says. That's because your deposits from both sources would be added together and insured only to the federal limit, which is generally $100,000.

Chris Hencke, an FDIC attorney in Washington who specializes in deposit insurance matters, points to another potential concern: You need to be sure you're dealing with a reputable company. "The FDIC does not examine, approve or insure deposit brokers," he says. "If a broker collects money from you but fails to place those funds at an FDIC-insured institution, your money will not be protected by the FDIC." How can you check out a deposit broker? Try the National Association of Securities Dealers at (800) 289-9999 for "registered" broker/dealers. Or, contact the state government agency that regulates businesses in your state (if it requires brokers to register in order to do business there).

Hencke also says that, before you commit funds to a broker, ask how it will title the account at the bank. Why? Because if the bank fails, the FDIC looks at how the institution's records say the account is owned. You want the account records to indicate that the broker is acting only as an agent for customers like you, so *each depositor* can qualify for $100,000 of FDIC coverage. Otherwise, the entire account would be protected to just $100,000 in total. "If the account is titled 'ABC Brokerage Company,' and nothing else, the FDIC would view the *broker* as the sole owner of that deposit, with insurance limited to $100,000," Hencke explains. "But if it's titled something like 'ABC Brokerage Company as Custodian for Customers,' you and the other customers would qualify for your own $100,000 of protection."

For More FDIC Insurance Information

To be sure your savings are fully protected, consider these sources of FDIC information:

- Get a copy of the most recent (1999) edition of the FDIC booklet "Your Insured Deposit," which is available free of charge from insured banks and savings institutions as well as the FDIC's Public Information Center (call toll-free 800-276-6003, write to 801 17th Street, NW, Room 100, Washington, DC 20434, or e-mail publicinfo@fdic.gov).
- Check out the insurance information at http://www.fdic.gov/deposit/deposits/index.html on the FDIC's Web site. The offerings include "Your Insured Deposit," the FDIC's interactive "Electronic Deposit Insurance Estimator" service (which allows you to check whether your accounts are fully insured), and answer common questions about revocable trust accounts, including living trusts.
- Contact the deposit insurance experts in the FDIC's Division of Compliance and Consumer Affairs. Call 800-934-3342, write to 550 17th Street, NW, Washington, DC 20429, or e-mail consumer@fdic.gov to get answers to specific questions.

10 Overestimating the coverage of funds deposited for a deceased person's estate.

Many executors or administrators erroneously believe that the funds they deposit for a deceased person's estate are insured for some unlimited amount or, at the least, up to $100,000 per beneficiary. (For example, if a surviving spouse and child eventually are to receive the deposited money, the estate's manager could mistakenly believe the funds are entitled to $200,000 of insurance protection.) But FDIC attorney Hencke says that under the rules, the funds are still insured to the deceased person, not to the heirs. "It's only after those distributions are made that the money is insured to the heirs," says Hencke. "Of course, this assumes that the heirs place the money in accounts at FDIC-insured depository institutions."

In addition, Hencke notes that if the executor or administrator deposits the money into a bank where the deceased person already had funds, all of that money would be combined for insurance purposes under the same $100,000 limit. What's the lesson here for executors? "Be aware of the $100,000 limit prior to making distributions of the funds to the heirs or beneficiaries," he says.

Final Thoughts

If you're concerned about your insurance coverage, periodically take some time to review your account balances and the FDIC rules that apply. It's especially important to review your coverage if there's been a big change in your life (such as a death in the family, a divorce, or if you deposit the proceeds from a home sale) or if you have accounts at two institutions that merge. Those events could put some money over the federal limit. If after reviewing your situation you find your deposits are over the $100,000 federal insurance limit, you have several options for protecting yourself. One option is to restructure your accounts at your institution (as described in this article). Another option is to move some of your funds to a second insured depository institution.

It also helps to remind yourself what federal deposit insurance does and doesn't cover. For example, remember that deposit insurance applies only to deposits and only in the event of an institution's failure. It does not, for example, cover the contents of your safe deposit box or any investments in mutual funds you purchased from an FDIC-insured bank.

We know that the insurance rules can be confusing. So, for more help or information, contact the FDIC as shown in the box above. We think you and your loved ones will agree it's worth taking the extra time to ensure that you are insured.

Review your coverage if there's been a big change in your life (such as a death in the family, a divorce, or if you deposit the proceeds from a home sale) or if you have accounts at two institutions that merge.

Is My Bank Healthy?

Thanks to deposit insurance, most consumers don't need to worry about their bank's financial condition, but some people should be generally aware of their bank's strength.

At one time or another you've probably asked yourself: "Is my bank healthy?" Fortunately, most consumers don't need to worry about their bank's financial condition if their funds are deposited in an FDIC-insured institution and are within the $100,000 federal limit. Most banks are very healthy now and aren't in danger of failing. Even so, there are some consumers who should try to be aware of their bank's stability, even if the institution is federally insured. Among them:

• Consumers or businesses that have chosen to deposit more than the $100,000 insurance limit and thus could lose some of their money in a bank failure;

• Business owners concerned that if their bank fails they will temporarily lose their "line of credit" (a way for companies to quickly borrow money up to a pre-arranged limit) until they can find a new lender;

• People who own stock in a bank and risk losing their investment if the institution fails; and

• Administrators of employee benefit plans, such as pension or profit-sharing plans, who deposit funds at banks. (See the box on the right.)

Predicting when or if a bank will fail is tricky business, especially if you're not a trained financial analyst. Basic data for each federally insured bank and savings institution can be obtained free of charge at www.fdic.gov/bank/individual/index.html on the FDIC's Web site or, for a fee, it can be ordered by calling 800-945-2186. The average person may have difficulty understanding this financial information. The FDIC does, however, make available a list of private companies that provide their ratings and analyses of individual banks and savings institutions, often for a fee. The FDIC posts this information on our Web site at www.fdic.gov/bank/individual/bank/index.html as a public service and not as an endorsement or confirmation of the companies or their conclusions. If you don't have access to the Internet at your home or office, your local library or a friend or relative with Internet access can print out the list for you.

You may wonder why the FDIC and the other banking regulators don't give out their ratings that indicate whether an individual bank is in good shape or not. It's because the government tries to get ailing banks to correct their problems and return to health. Disclosing the name of an institution having financial troubles could cause nervous depositors to remove their funds and, in turn, trigger bank failures that could have been prevented. "The FDIC is very strict about who has access to the regulators' bank ratings," says Serena Owens, an examination specialist with the FDIC's Division of Supervision in Washington. "Even FDIC employees can't get rating information on individual banks unless they need it to do their jobs."

Keeping Workers' Nest Eggs Safe

If you are an administrator of an employee benefit plan—perhaps a 401(k), pension or profit-sharing plan for a corporation, small business or professional office—you may have a special reason to be concerned about a bank or savings institution's financial condition.

By law, if the institution meets the capital levels specified in the FDIC's deposit insurance rules—and most do—each employee's share in these accounts at any one institution is covered for up to $100,000, even if the total account itself equals much more than that amount. But, if the institution doesn't have enough capital (as defined by the institution's primary federal regulator) and it later is closed by the government, those retirement funds will qualify for much less insurance coverage—up to $100,000 *in total,* not $100,000 for each person in the plan.

"The FDIC requires each insured institution to disclose to administrators, in writing, whether it has met the necessary capital levels and whether the maximum insurance coverage is provided to those deposits," says Joe DiNuzzo, a Washington-based FDIC attorney. "If a banker you're dealing with is unaware of these rules or fails to provide the required disclosures, you may want to consider taking the money somewhere else."

The rules governing employee benefit plan accounts can be complicated, so we encourage interested parties to contact the FDIC's Division of Compliance and Consumer Affairs (listed on Page 15 of this newsletter) with any questions or concerns.

A New You for the New Millennium

Consider the start of the 21st century a good reason to fine-tune your finances. Here's a simple plan.

Many of us make new year's resolutions with good intentions, only to see our plans fizzle. The FDIC can't advise you on how to eat better or exercise more, but we *can* suggest ways to get your finances in shape. And, we think your chances for financial success will be better in 2000 if you start with a simple plan and the attitude that it's a new you for the new millennium.

FDIC Consumer News has put together the following tips to help get (or keep) your financial house in order. We deliberately kept our list short and our advice manageable.

"If you want to be successful—to make progress with your financial resolutions by year's end—a plan shouldn't be too broad or too demanding," says Mike Turpenoff of the FDIC's Office of the Ombudsman in Washington. "Most financial consultants will tell people that even basic, easy-to-take steps can improve personal finances without using a lot of time and energy."

Here's what we suggest you consider:

1. Organize your financial records.

Start by sorting your financial and legal papers into categories for easy reference.

Information about your savings accounts (checking account, certificates of deposit, etc.) and investments (stocks, bonds, mutual funds and the like) could go into one "savings and investment" portfolio.

Outstanding bills could go into another folder that's easy to remember and find. Documents such as mortgage papers and old tax returns could go into yet another file. It also helps to label your files clearly and even put them in alphabetical order.

To further save time and reduce confusion, shred and toss away old bills, canceled checks, and other documents that have no real use for tax or other purposes. (For example, most people probably only need to keep old tax returns and canceled checks for seven years. You may want to discuss specifics with your attorney, accountant or another advisor.)

Arranging and updating your files also will help your family locate important documents, such as wills and insurance policies, in an emergency.

2. Find ways to spend less and save more.

Here's one easy way to get started. On one side of a piece of paper, jot down ways you might be able to reduce your expenses. (Examples: "Eat out less." "Carpool to work instead of driving alone.") On the other side, mark down ways you can increase income. ("Work overtime once in a while." "Have a yard sale.") Give this some serious thought, and try to identify the ideas that seem most likely to work for you.

After you begin reducing expenses and earning more money, take a large chunk of that extra cash and put it into savings accounts and, if possible, into investments. "Many financial consultants tell their clients to consistently save money on a defined schedule—even if it's only $5 a week," says Turpenoff. "You may be surprised how fast savings will grow when you save a specific amount on a specific schedule."

Good examples of your savings or investment options:

- Federally insured, interest-earning accounts at banks, savings and loan associations, and credit unions.
- Payroll deduction programs offered by your employer that enable you to invest in U.S. Savings Bonds, tax-deferred retirement accounts (typically through mutual funds), or other savings or investment plans.

Remember: Only deposits are insured by the FDIC or, for credit unions, the National Credit Union Administration. Investments are not protected by the government against loss.

3. Choose and use credit cards carefully.

First, shop around for a good deal. "All credit cards are not created equal," says Kathleen Nagle, a Senior Consumer Affairs Specialist with the FDIC in Washington. "There may be substantial differences in interest rates, fees, grace periods and other terms." In general, if you expect to carry a balance on your card most months, try to find one with a low interest rate (also known as the Annual Percentage Rate or "APR").

You also have to manage your credit cards responsibly. Some suggestions: Try to pay all or much of your credit card bill each month. While it might be tempting to pay only the minimum monthly payment, you're simply taking more time to pay off your debt and paying far more (perhaps thousands of dollars) in interest charges.

continued on next page

You may be able to reduce the amount of interest you pay by consolidating several credit card debts into one or two cards that offer a low interest rate.

To avoid paying extra fees, pay your bill on time and never exceed your credit limit. For more about your card's fees and rules, see your card contract or speak to a customer service representative from the card issuer.

Final Thoughts

Some people may have serious debt problems, for any number of reasons. They especially need to have a reasonably accurate idea of their expenses and a plan for better reducing their debts.

If you've got serious money management troubles and you can't solve them on your own, consider enlisting the help of your banker, lawyer or accountant. There also are respected organizations that, for free or at low cost, advise people with debt and budgeting problems, and even help negotiate repayment plans with lenders.

To find a legitimate debt counselor—and avoid "credit repair clinics" that charge excessive fees for questionable services—start by contacting your local government's consumer affairs department or a nearby Better Business Bureau.

If you follow a good number of our suggestions, we'll offer one more bit of advice. Congratulate yourself. You should feel better knowing that you've done some simple things that could dramatically improve the way you manage your personal finances.

It's the Year 2000. Now What?

Errors and glitches, Y2K-related or not, can always occur, so keep paying attention to your finances

It's well beyond midnight, January 1, 2000, and so far, so good. In fact, very good! The Year 2000 (Y2K) date change came and went without serious disruptions for banking customers, thanks to preparations by the financial industry and guidance from government regulators that ensured institutions' computers would work smoothly and that isolated glitches would be addressed.

While credit cards, debit cards, checks, automated teller machines and other banking services appear to be working normally, it's still important to check for the occasional error. (That was true before Y2K, too.) What do we recommend?

As always, keep bank statements, receipts and other records of your deposits, investments, ATM transactions, loan payments and other business. In the unlikely event there are errors, these documents will help your bank and you resolve them.

Continue to pay attention to your finances. Balance your checkbook regularly. Review your bank statements, credit card bills and similar mailings, to make sure they're accurate. Contact your institution immediately if, for any reason, there's a discrepancy in your records or if you notice something suspicious, such as a missing payment or an unauthorized withdrawal.

Remember that thieves can be very creative and convincing in order to trick people into handing over cash or divulging valuable information. So, be wary of anyone who contacts you claiming to be a bank employee, a police officer or some similar professional needing to "verify" that all is well with your bank account. It may really be a scam to get you to send money or provide personal details, such as your Social Security number or bank account numbers, which a crook could use to remove money from your accounts or order new credit cards in your name.

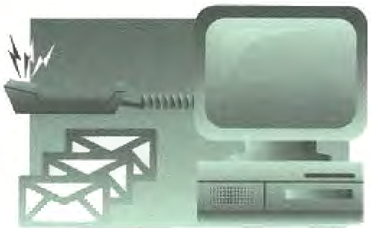
Finally, if you have any Y2K question or problem not resolved by your financial institution, contact the appropriate government regulator listed on the next page of this newsletter.

Coming Soon...

Readers of ***FDIC Consumer News*** know that Congress recently passed legislation in response to public concern over the adequacy of consumer privacy laws. Watch for future coverage of:

- *Upcoming rules from federal banking regulators implementing the new privacy laws*
- *An overview of what technological advances such as Internet banking and commerce mean for consumer privacy*
- *Tips and information to help you protect yourself*

For More Information



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

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

For information about consumer protections, including deposit insurance:

FDIC Division of Compliance and Consumer Affairs
550 17th Street, NW
Washington, DC 20429

Phone: **(800) 934-3342**

TTY: **(800) 925-4618**

Fax: **(202) 942-3427**

E-mail: **consumer@fdic.gov**

For questions, concerns or complaints about the Federal Deposit Insurance Corporation:

FDIC Office of the Ombudsman
550 17th Street, NW
Washington, DC 20429

Phone: **(800) 250-9286**

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 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.)

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.

FDIC

Federal Deposit Insurance Corporation
Washington, DC 20429-9990

OFFICIAL BUSINESS
Penalty for Private Use, $300

BULK RATE
MAIL
Postage & Fees
Paid Permit
No. G-36