

FDIC Consumer News



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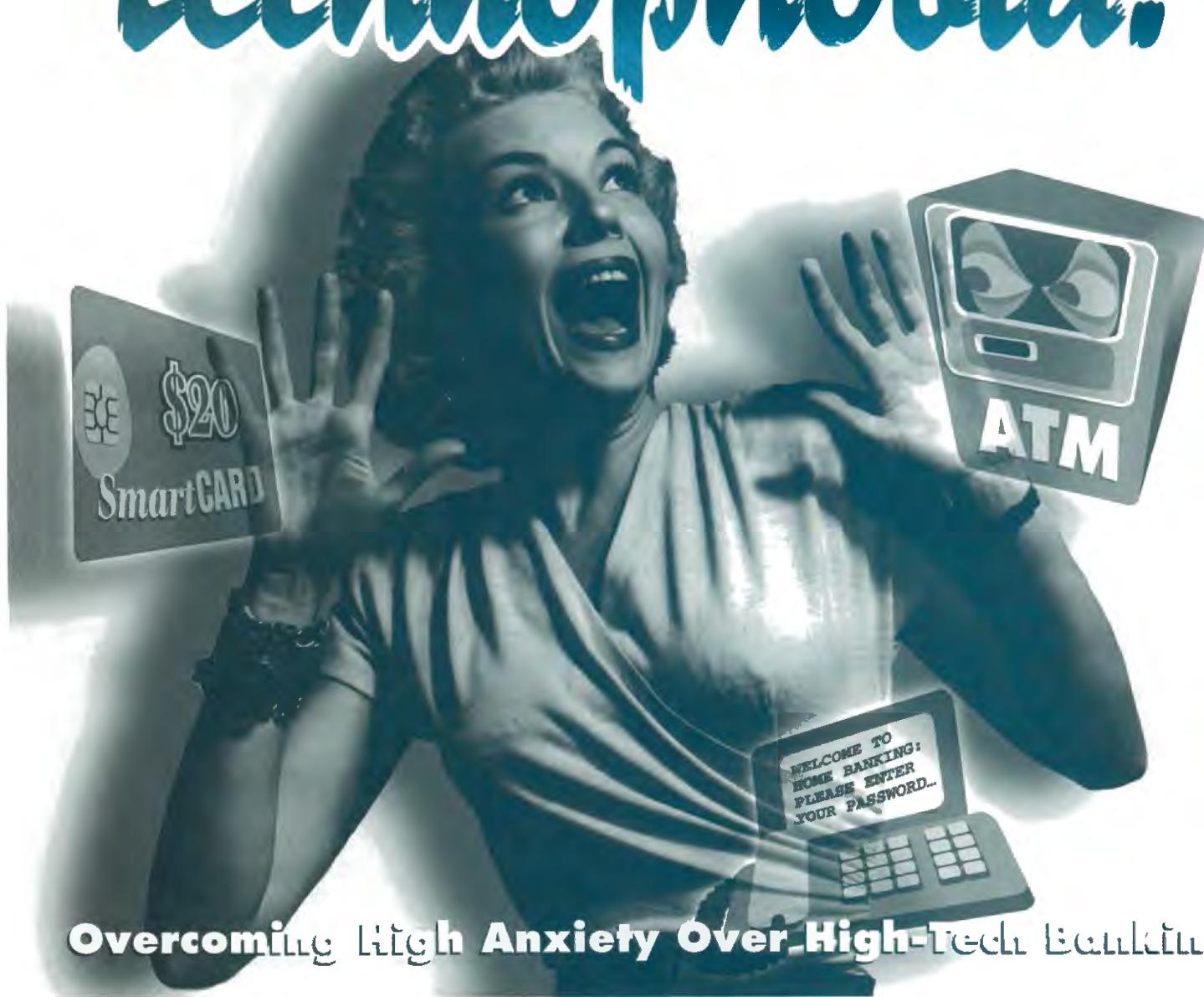
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News and Information On Consumer Issues from the Federal Deposit Insurance Corporation

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Technophobia!



Overcoming High Anxiety Over High-Tech Banking

Photo Illustrations by T. W. Ballard

Overcoming High Anxiety Over High-Tech Banking

Afraid of ATMs? Fearful of phone banking? Confused about computers? If so, this guide can help allay your fears.

Do you insist on conducting your banking transactions with a human teller rather than trusting an automated teller machine with your deposits or cash withdrawals? Are paper checks the only way you feel comfortable paying your bills? If you said "yes" to any of these, you're not alone.

While more and more consumers are using electronic banking services because of added convenience, many other people (rightly or wrongly) believe banking is safer and more reliable when done with human tellers and paper checks, not computer terminals and keyboards.

To help you understand some of the recent developments in electronic banking — so that you can make informed decisions about whether these products and services are right for you — **FDIC Consumer News** is devoting most of this issue to high-tech banking.

You'll learn, for example, how to: use a "debit card" to tap into your checking account to pay for goods and services, without ever writing a check (Page 6); obtain a high-speed bank loan from a machine (Page 6); load electronic cash on a plastic "stored-value card" to pay for small purchases instead of having to fumble around for coins and bills (Page 7); have your paycheck or government benefit check automatically

deposited into your bank or brokerage account (Page 9); and use a telephone or personal computer to conduct banking transactions from your home, office or practically anywhere (Page 10).

Your choices are expanding constantly. In the time it takes you to read this article, it's a good bet that some innovation in electronic banking has been announced by a financial institution or high-tech firm. Where will it end up? Experts predict that some day you'll be able to conduct a variety of transactions through your TV set or replenish the amount on your stored-value card at a nearby pay-phone. You might also be able to carry one card for both banking and travel — use it to pay for purchases, store information about your reservations and even keep emergency medical records.

But predictions for the future aside, is **electronic banking right for you today?**

You may say you're not ready for much or all of what electronic banking has to offer. That's fine. You'll still have the option to bank at a branch office with human tellers and paper checks.

But keep a few things in mind: You



Photos: Photofest
Photo Illustrations: T. W. Ballard

may end up paying more for the privilege of using human tellers and paper checks because electronic banking usually costs your bank, savings association or credit union much less than traditional banking. You also could be missing out on more convenient, time-saving ways to do your banking. And increasingly you could find traditional services being eliminated. For example, under a 1994 law, if you started receiving federal wages or retirement payments on or after January 1, 1995, the U.S. Treasury is required (with certain exceptions) to send the money to your bank account electronically instead of mailing you a check.

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The bottom line: Whatever decision you make about electronic banking should be an informed one, based on an understanding of your needs as a consumer and the costs and benefits of the services being offered.

Key Questions

It's helpful to know why some people steer clear of electronic banking. One reason is a basic fear of technology — what some call "technophobia." This means some consumers who won't bank by computer also won't record a TV show on their VCR or set a digital alarm clock. These folks think that they're too slow or these newfangled devices are too fast. But once these consumers understand more about how these products and services work, they could be more willing to use them.

Whether you're a computer wiz or a computer wimp, you'll probably want answers to several questions before you'll be comfortable trying any electronic banking service:

- ✓ Will my transactions be handled accurately and safely? Will mistakes or unauthorized transactions be simple to detect and correct?
- ✓ What fees are involved?
- ✓ What equipment is needed, and what will it cost me? Is the equipment easy to use or subject to frequent breakdowns?
- ✓ Will I be able to use the service where and when I want it?
- ✓ Can criminals easily get my

checking account number, credit card number and other personal information they can use to steal money from my account? What is my liability?

- ✓ Will people be able to find out private information, like how much money I have and how I spend it?

Getting Answers

The answers to these questions likely will depend on the product or service and who is offering it. Even with the more common forms of electronic banking (ATMs and direct deposits of paychecks into bank accounts) that are relatively safe and efficient, you'll probably still have concerns about how these services work and what they cost.

If you're interested in learning or doing more regarding electronic banking, ***FDIC Consumer News*** offers these tips:

1. Think about the traditional banking services you use most and then ask about more convenient, high-tech alternatives.

Be sure to shop around. Compare fees and limitations for traditional services versus high-tech ones offered by your banking institution and some others. Many institutions waive or reduce fees and minimum balance requirements as incentives for you to use electronic services such as ATMs or direct deposit. But many also charge for electronic services, such as when you use another bank's ATM (typically \$1) or **(Continued on next page)**

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if you exceed a certain number of on-line banking transactions in a month.

If you're especially interested in banking from home, find out what kind of equipment is needed. Computer hardware and services can be expensive, and sometimes have to be upgraded, so try to get a handle on what the equipment will cost you. Also ask what kind of technical support is offered. For example, if you expect to do home banking at night, find out whether toll-free, 24-hour assistance is available or whether you'll have support only during regular business hours. Also find out whether creditors, such as your utility companies, are set up to receive payments from you electronically rather than by check.

It's also important to talk to people outside of the banking or computer industries, especially friends or relatives who've already given electronic banking services a try. Find out what they liked or disliked.

2. Take a test-drive before committing to anything.

It's okay to read brochures and magazine articles about a particular service (your bank or local library probably have them), but the literature may be either too promotional or too technical. So it's important to see and do for yourself.

Visit your bank and ask for a demonstration, or tag along with a friend who's going to conduct a transaction. But after watching how something's done, try it yourself — preferably with the help of a kind

soul who can explain the technology in plain English and who won't laugh at your questions or fears.

Find out if your bank holds seminars on how to use ATMs and computers. If it doesn't, ask for a quick private lesson. And don't focus too much on the technology itself; that's just more likely to confuse you. After all, to drive a car you don't need to understand everything that's going on under the hood.

3. Start small.

Even if your bank, savings association or credit union offers many different electronic services, it's best to ease your way in.



First use one or two of the services that meet your needs and are low on the intimidation scale. If you're new to electronic banking, you might try ATMs or direct deposit of your checks. If you're already a veteran of

these services, your next venture could be to use debit cards for purchases or to pay bills from home by phone or computer. And don't sink a lot of money into computer hardware, software or an on-line service until you're pretty sure you'll use it.

4. Start slow.

After signing up for a service, take your time with the first few transactions. Play around with the keyboard. Do simple, harmless maneuvers or ones you can easily correct if you make a mistake. If you're new to ATMs, for example, start with small transactions first, and check your next bank statement to make sure everything went okay.

Woody Hamrick, an FDIC bank examiner in Tampa, Florida, and the chairman of an FDIC task force on technology issues, gives this example: "When I signed up for electronic bill-paying a couple of months ago, I started with small bills that wouldn't be a big problem if there was a mix-up and they became past due, like the bill for my cable TV. Once I became comfortable that the payments were being made accurately and on-time, I expanded to more important bills, like my mortgage."

5. Prepare for potential problems.

While no transaction — paper or electronic — can be 100 percent guaranteed against defects, the consumer's peace of mind is crucial to the widespread acceptance of high-tech banking. That's why the

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banking industry is continually developing and refining its procedures to prevent and detect errors, thefts and other problems.

As with any banking service, follow the recommended security procedures. For example, never give personal information (access codes, account numbers, credit card numbers, Social Security number) to people you don't know or trust. Avoid ATMs in dark or remote places, or areas where suspicious-looking characters are hanging around.

Also keep good records, so you can help spot and reconcile errors. But also be sure to discard receipts safely when they're no longer of use. Don't just toss receipts or other bank records in the garbage — destroy them — because many financial scams start with the personal information found in trash cans. Also keep the manuals or brochures you received from your bank, especially the ones with phone numbers to call in case of a problem and information about how to resolve errors.

When problems *do* occur, be patient and ask for help from your financial institution, which will work with you to try to resolve the matter. That's why, even if you go high-tech for a high percentage of your banking, you should still get to know people at the bank who can help in an emergency.

6. The government also can help.

Electronic banking has been around in one form or another for decades,

so there already are laws and rules that may limit your liability for unauthorized transactions and set procedures for correcting errors. And because of the rapid changes in technology, Congress and government banking regulators are closely monitoring developments to determine whether existing consumer protections need to be strengthened or clarified. For example, the FDIC's task force on technology is studying how new forms of money (such as funds on stored-value cards) fit in with the current deposit insurance protections.

John Jackwood, chief of consumer protection laws for the FDIC's Division of Compliance and Consumer Affairs and a member of the agency's task force, adds: "The FDIC in particular is concerned about the clear and full disclosure to consumers about which of the products banks offer on-line are FDIC-insured and which are not." He said this means, for example, that FDIC-insured institutions that offer mutual funds over the computer lines should do a good job explaining that nondeposit investment products are *not* insured by the FDIC.

Remember that if you have questions about existing consumer protection rules, or if you can't resolve a dispute with your financial institution, you can always contact the

appropriate government regulator listed on Page 15 of this newsletter.

Final Thoughts

When the world's first multi-purpose computer was unveiled 50 years ago, it weighed 30 tons, took up a large room and did little more than simple calculations. (See the "proof" on Page 7.) Today, you can do many sophisticated banking transactions using a piece of plastic thin enough to fit

inside your wallet. So be patient. If you're still in doubt about electronic banking, hang in there, because these products and services are sure to get more "user friendly."

You, too, are likely to change in the months and years ahead. The FDIC's Hamrick remembers: "When ATMs first came out, people didn't want to use them. Now people will wait in line at the ATM outside even when the tellers inside have no lines."

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Your guide to the horror movies: Scenes from "It Came from Outer Space" (Universal Pictures, 1953) appear on our cover and on Pages 4 and 5. "The War of the Worlds" (Paramount Pictures, 1953) is featured on Page 2. Photos from Photofest.

Debit Cards: The Electronic Checkbook

Banks like debit cards, and so do merchants. Why? The cards mean less paperwork and no bounced checks. But what about consumers? Now consumers are warming up to them, too. In fact, debit cards in the '90s are fast becoming an accepted alternative to credit cards and cash.

A debit card looks like a credit card, but works like an electronic check. You've probably used one to withdraw cash from your account at an automated teller machine (ATM), where you can bank any time of day, even in a foreign country. Now the same card can pay for all kinds of purchases—from clothing to gasoline to groceries. Ask your bank whether the card you've been using at your ATM has the new debit card features.

When you use a debit card, the amount is immediately deducted from your checking account. So if your balance is running low, don't assume you have a few days to add money to your account to cover the cost of your purchase. And don't stuff that receipt in your pocket and forget to record the transaction.

What's in it for you? Debit cards are convenient. Whipping out a debit card is certainly easier and faster than writing a check. Some banks do, however, charge a fee for debit card transactions, so check with your bank.

It's wise to exercise caution with debit cards. Here are some tips:

Safeguard your personal identification number (PIN). Don't

leave it in your purse or wallet. Better yet, memorize it. And protect your card. Armed with your PIN and your card, a thief could be off to the islands in no time, compliments of you.

Beware of "shoulder surfers" at ATMs or stores. These are thieves who try to decipher your PIN as you enter it. Thieves have even videotaped ATM users inputting their PINs, then matched the PINs with the receipts left in the nearby trash bin. (Some ATM receipts print your account number, so take them with you.)

Hold on to your store receipts. These receipts may have your account number, too, and a thief may want to "borrow" it for a while.

Report a lost or stolen debit card right away. Your potential liability is greater than with credit cards. If you make a report to your debit card company within two business days, your liability is capped at \$50. If you wait longer than two days, but less than 60 days, you could be out up to \$500. By all means, do not wait more than 60 days to report a lost or stolen debit card because your liability could be unlimited. (In contrast, by law you're only liable for a maximum of \$50 per credit card if a thief uses it.) This is one reason to pay attention to your monthly bank statements and report any suspicious transactions immediately.

Use these safety tips...and take that trip to the islands yourself.

■ ■ ■



Photo: Intel Corp.

Now Here: High-Speed, Low-Hassle Loan Machines

First there were automated teller machines (ATMs) for dispensing cash. Now a few banks are using automated loan machines (ALMs) typically for retail purchases, personal loans (up to \$10,000) and even mortgages. The goal is to help creditworthy consumers who want a loan but don't have the time or desire to go to the bank and fill out the usual paperwork.

One type of ALM looks like an ATM. Let's say you're at the shopping mall on a Saturday night and you decide to buy a \$600 refrigerator but you don't want to charge the purchase or write a check. Instead, you walk to a nearby loan machine where you provide information, in many cases without any contact with a banker. The system will do an on-line check of your credit history, verify your identity (usually with the Department of Motor Vehicles) and take other security procedures. If the loan is approved, the machine will print out a check or transfer the money to your bank account or to the merchant's account. The whole process can take just 10 minutes.

Another type of ALM works like a two-way videoconference. For example, sitting in your real estate agent's office you can see and talk to a mortgage broker, get details about loans from several lenders and submit your application electronically. Your application could even be approved in one day or less.

■ ■ ■

New Forms of Plastic Money Coming Your Way

"Smart cards" with microchips can store cash value and ease purchases

Imagine you're taking a trip from New York to Paris. First, you pay your subway fare to the airport, then charge your plane ticket. After arriving in Paris, you pay for your taxi fare to a nearby cafe, where you buy lunch. Now imagine you've paid for these purchases without once reaching for a coin, a dollar bill, a French franc, or even a credit card. But how? By using a small piece of plastic known as a "smart card."

While all of what we've just described is not possible today, limited-purpose smart cards, which look like credit cards, actually have been around for a while. Patented in the 1970s, millions are in circulation in Europe and Asia. And now certain smart cards are being tested for use in the United States.

Most smart cards today are "stored-value" cards only used to pay for small-dollar purchases in one currency. The cards may have a fixed amount for one purpose, such as transit fare passes. The amount of each purchase simply is deducted from the card electronically when you use it. Some cards are intended to be tossed away when the value is used up, but other versions can be "reloaded" with monetary value at automated teller machines. The card's main consumer benefit is the ability to pay for small purchases without having to carry cash or worry about exact change.

Stored-value cards will be available



Photo: The University of Pennsylvania Archives

Fifty years ago, the University of Pennsylvania introduced the world's first general-purpose computer that weighed 30 tons, took up a 30-by-50-foot room and did little more than high-speed math. Today, consumers can carry in their wallets "smart cards" with computer chips that handle complex banking transactions and more.

for purchases at the 1996 summer Olympics in Atlanta, on a trial basis in New York in the fall, and probably elsewhere soon.

Smart cards that do more than just pay for purchases now are appearing on some college campuses. Students are carrying cards that act as a cash card, an identification card, a dormitory access card, plus more.

Smart cards feature a tiny computer

chip that enables the card to hold a variety of data. This differs from today's magnetic strip cards, such as credit and debit cards (see Page 6), which can only hold a limited amount. As envisioned, the smart card of the future may:

- Act as a credit card to charge purchases. The card may even keep track of the transactions.

(Continued on next page)

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■ Allow money to be transferred from a consumer's bank directly onto the card over the phone or through a computer, or perhaps transfer value between cards. Some cards will even hold separate "purses" of foreign currencies.

■ Store lots of non-financial information — medical histories, driver's license information and even photos.

When available, what will these smart cards mean for the consumer? Convenience. You'll only have one card to tote around, rather than a stack of credit cards, debit cards, dollar bills, coins, and miscellaneous data.

But beware of the risks if your stored-value or other smart card is lost or stolen—it may be like losing cash. Be sure to ask the card issuer what recourse you have should this happen to you. And be aware of such important matters as expiration dates and whether you can redeem unused balances.

Although smart cards are still in their infancy in the U.S., many banks, telephone and computer companies, and merchants are researching and developing products in the field. And the list is growing.

Who knows? In five or 10 years, we may regularly be using stored-value and smart cards alongside credit and debit cards. The jingle of pocket change that used to be a sign of financial security may increasingly be replaced by the click-click sound of plastic.

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Technophobia — Our Readers Respond!!

We asked readers to share their stories about coping with electronic banking. The responses, mostly about ATMs, were funny, interesting and helpful.

Zeros Count

I was afraid to use an ATM machine, but I finally tried one because we were leaving on vacation and wanted to take our card rather than carry too much cash. When I inserted my card in the machine and pressed the amount for \$20, nothing happened. I tried over and over, carefully following the instructions, but I was unable to get the money. Finally, I asked a teller for help and the problem was immediately solved. I had been pressing 20 when I should have been pressing 20.00. Now the tellers kid me about being chintzy and trying to get the machine to give me 20 cents.

— Phoenix, AZ

ATM Shark

When my stepson was home on leave and needed cash, I went to the ATM. The machine took my card and spit it out. When I tried again, the machine ate my card. So I quit, went to the grocery store, bought a half-gallon of milk and cashed a check.

— Albany, NY

Number Please?

I was nervous the first time I used an ATM, so when it asked for my personal identification number (PIN), I entered my Social Security number! I did this three times, and after the third try, the machine ate my card. I had to call the bank, admit my error and pick up my card. I was so embarrassed!

— Birmingham, AL

Mine, Ours, Hers

I was working at the new account desk of a bank when a customer told me he might cancel his ATM cards. He had accounts with his mother — a widow — and he had accounts with his wife. He told me his PIN numbers never seemed to work for either card, even with three new PIN numbers. I finally figured out that each time he complained to the bank, he was using the wrong PIN for each card. I convinced him to label each card "ours" or "Mom's." That ended his problems. He was delighted to have simplified what had become a major frustration in his life.

— Oakland, CA

The Old-Fashioned Way

I'm not a techno-fraidy, even though I don't have a microwave oven, a VCR, or an ATM card! While ATM machines seem convenient, I remain a traditionalist. I still go to the bank lobby to write checks for cash. Somehow I don't think seeing my bank balance on an ATM receipt would have the same impact as subtracting the check for cash from the balance in my checkbook. I know I could even pay my bills by computer, but I think it's a good idea to sit down twice a month with the checkbook and the bills that need to be paid — it forces me to reconcile my champagne tastes with my beer budget.

— Alexandria, VA

Direct Benefits from Direct Payment Programs

In a story entitled "33 Ways to Simplify Your Life," the health magazine *Prevention* recently listed automatic deposit of paychecks among its top tips for easier living in a complicated world. "It's the 1990s," the magazine declared. "There's no need for you to drag a paycheck over to the bank, write slips and stand in line."

But direct deposit doesn't just make sense from the standpoint of your health. It also makes economic sense. Here are some of the reasons you might want to consider having your paycheck, Social Security check, stock dividends and other checks deposited directly to your checking, savings or brokerage account:

Convenience. No more lunch hours, evenings or weekends making special trips to your bank or broker. And there are no delays or worries in getting your check deposited or invested if the mail is "slow" or you're out of town or sick.

Safety. Each year, millions of paychecks get lost in the mail, stolen from mailboxes or desks, or are misplaced or mishandled. But you don't have to worry about those problems if the funds are sent directly to your account.

Savings. A check deposited in an interest-bearing account will begin earning interest on payday, not when you get around to sending the check in and it officially "clears" through your bank. Also, many banks waive monthly fees and minimum balance requirements on checking accounts if you deposit your paycheck directly

into your account. You may benefit in other ways from the lower processing costs of direct deposit versus paper checks.

Despite the value of direct deposit, only 40 to 50 percent of all paychecks and benefit checks in the U.S. are handled this way. Apparently, many people prefer the "certainty" of a check in their hands. In reality, however, current laws and banking procedures give consumers more safety and confidentiality with direct deposit than with paper checks that have to be mailed and processed. You'll receive pay stubs from your employer or other notices so you can monitor how much you were paid. Your financial institution also must provide ways for you to verify that a direct deposit has been received.

You can also arrange for automatic deductions from your bank account or paycheck. These, too, can simplify your life and help you handle your finances. For example, you can authorize your bank to regularly pay your life insurance premiums or invest in a mutual fund. Or you can instruct your employer to automatically deduct from your paycheck to buy Savings Bonds or make other investments. Some banks even offer lower-cost loans when payments are deducted automatically from an account.

One final note of caution: As we've reported previously, be on guard against con artists who try to trick you into authorizing an automatic withdrawal from your account. The scam usually starts with a phone call

at home from someone asking for a charitable donation or offering products or prizes. Although most telemarketers are legitimate, some are swindlers who ask for a check or checking account information they can use to tap into your account. One of the best ways to protect yourself is to refuse to give bank account information over the phone unless you originate the call or you know the company is legitimate. If you think you've been victimized by telemarketing fraud, immediately contact your bank and the National Fraud Information Center toll-free at 1-800-876-7060.

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FTC Brochures Offer Tip-offs to Rip-offs

The Federal Trade Commission has issued two new brochures to help consumers protect themselves against high-tech fraud. One booklet, called "Online Scams," gives tips for guarding against bogus investments, credit repair services and other questionable products and services offered online. The other booklet, "Automatic Debit Scams," details how to avoid telemarketing frauds that target checking accounts, as described in the story above. For a copy, write or call the FTC, Public Reference Branch, Washington, DC 20580 (Phone 202-326-2222, TDD 202-326-2502). You also can access the FTC's publications at <http://www.ftc.gov> on the World Wide Web.

A Primer on Home Banking: No lines, no waiting. Just log in, please.

Are you ready to give up trips to the bank and turn to electronics to guide your finances? If so, you may be a candidate for what is known as home banking using a special telephone or your computer.

You should be forewarned that handling your finances over a special phone or a computer from your home isn't for everybody. But if you are comfortable with high technology, then it's a banking option you may want to consider.

Home banking still is in its infancy and there are competing approaches to it. There are at least three kinds of home banking programs:

1. The Screen Phone. Some banks are betting this approach will attract consumers who don't have a computer or who are already comfortable taking care of business over the phone. The screen phones now being offered look like a desk phone with a small built-in computer screen. Using the screen phone the customer can transfer money between accounts, make payments on loans and credit cards, and some even allow the consumer to "swipe" a credit card to make purchases by phone.

Perhaps the downside to this technology is the cost. The purchase price of screen phones ranges from \$80 to \$200, while the cost of renting the equipment runs from \$10 to \$15 per month. The question for the consumer is whether the convenience justifies the investment.

You also should be aware that transactions over phone lines are not 100 percent safe.

2. PC Banking. The consumer with a personal computer can pay bills, transfer money between accounts at the same bank, and just about every other banking function, except withdraw cash.

How much of your personal finances you want to handle by computer depends on you. For example, bill paying via computer is perhaps the simplest form of banking using personal finance software. Using the software you can pay your monthly bills on-line, with the funds being transferred either by your bank or a bill-paying service. But you'll probably be paying a monthly charge, which will vary depending on the number of checks you write to cover your bills.

A more comprehensive approach to managing your money (which goes beyond simply paying bills) is PC banking that allows you to take care of some of your banking from home, including the ability to transfer money between accounts at one bank or see whether a check has cleared. You will likely have to pay a monthly service fee or keep a minimum balance for the convenience.

3. Internet Banking. The explosive growth of the Internet has attracted people wanting to sell things and others who see it as a way to provide financial services such as banking. The Internet, which started

in the 1960s as a vast nationwide computer network for the defense industry, in the 1990s became a worldwide library, playground, shopping mall, and a link to anyone with a computer and the right equipment.

Many banks now have sites on the Internet, but they are largely informational. A few banks are beginning to offer a limited number of services, including such things as loan applications. And, we're just beginning to see banks that offer certificates of deposit and traditional accounts via the Internet.

A Word of Caution

If you are considering depositing money or making an investment with an institution on the Internet, make sure you know which products are FDIC-insured and which aren't. Remember, most but not all institutions that advertise themselves as "banks" are FDIC-insured. Even if the institution has FDIC insurance, it can offer products that are not covered by deposit insurance, such as mutual funds.

You can contact the FDIC's Division of Compliance and Consumer Affairs, as listed on Page 15 of this newsletter, to see whether a product or institution is FDIC-insured.

The Wall Street Journal recently noted: "Fewer than one percent of all bank customers currently manage their money on-line, and it will take time to persuade more to do so." Estimates range from about 700,000 to two million computer

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owners who use home-banking services in this country.

But some industry experts are predicting an explosion in home banking in the next few years.

Some researchers say that by the year 2010 the forecast is that 95 percent of homes will be banking in Cyberspace.

Interest is building—seemingly by the day—in the use of personal computers to carry out banking functions. For example, soon some car and truck dealers will be processing loans for potential buyers over the Internet.

Also, testing began recently on a hand-held computer that would allow the user to pay bills, transfer money, and get account information, among other things. If it works out, the consumer wouldn't even need to turn on a home PC to take care of banking; you could do it in the yard or riding in the car.

Global Banking

The forecast is that a growing number of banks will soon be offering—on a computer screen near you—CDs, mutual funds and even loans over Cyberspace. Some observers predict the day will come when a computer will allow people to have banking relationships with institutions scattered around the globe. So if the forecasters are right, you'll soon be plugging in your electric car for the night before cruising through Cyberspace to shop for a loan to replace your solar panel.

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Old Money, New Money, Electronic Money

Perhaps the most advanced form of handling money via computer, which is now being tested, is electronic cash. Think of it as a wallet tucked inside your computer.

Using your computer, you would make a withdrawal from your bank—not in cash but in electronic "money" that is given a code by the bank and sent on to your computer. The electronic cash is stored on your computer until you spot something on the Internet you want to buy or you electronically pay someone you owe money. You would send the electronic cash to the retailer or the person, who in turn forwards the money electronically to the bank to verify the value. If the bank approves the transaction, the electronic cash has been spent. A word of caution: if the system that provides electronic cash should crash, you may lose your electronic cash balance.

Internet Terms of Interest

Internet: Also called "the Net," this simply is a worldwide network of computer networks that enables users to send mail, buy and sell goods, or exchange other information. The Internet was developed by the military in the 1960s as a communications tool. It gradually expanded for use by scientists and then by consumers and businesses.

Cyberspace: A term used to describe the world of computer networks and computer-based communications, primarily via the Internet. It is sometimes called the "information superhighway."

World Wide Web: Commonly referred to as "the Web," this is an Internet program

where documents and lists are linked together for quicker, easier access. Users may read and retrieve text and color graphics, watch video clips, listen to sound, and jump to other Internet sites. The difference between the Web and the rest of the Internet is the difference between strolling through a wondrous bazaar of sound and color or reading about the bazaar on a typewritten page.

Home Page: The main display on the World Wide Web for any company, organization, or even person who wants to have one. Home pages number in the millions and are growing by the thousands every day. The FDIC's home page (at www.fdic.gov)

provides ready access to FDIC consumer brochures and other information.

Browser: A type of computer program to help the user "browse" around the Internet rapidly and easily.

Gopher: Another Internet program that helps people find and use information on the Internet. It was named for the mascot of the University of Minnesota, where it was developed. The FDIC's gopher address is [gopher.fdic.gov](gopher://gopher.fdic.gov).

E-mail: Electronic messages you can send or receive via your computer.

On-line: The state of being in direct contact with other computers or computer services.

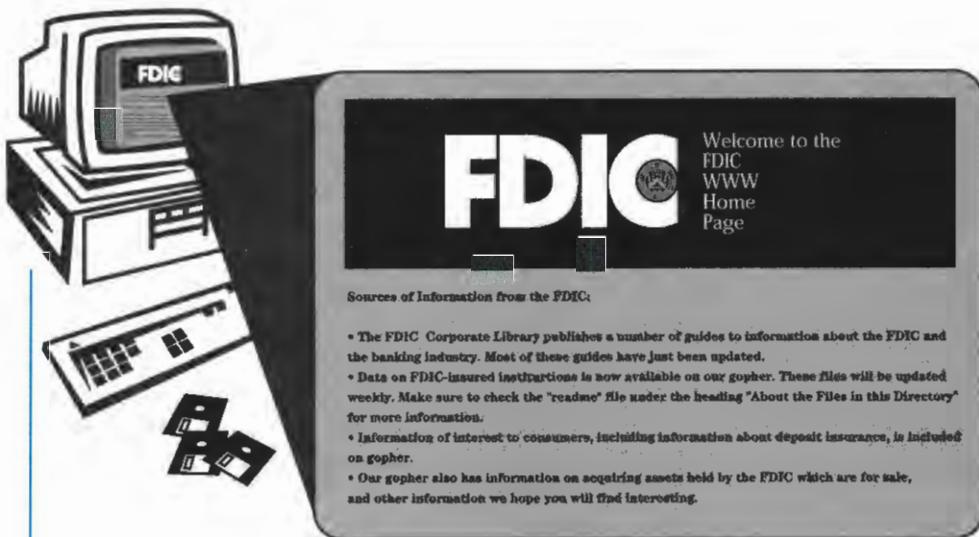
High-Tech Banking

FDIC Help and Information Available on the Internet

If you've got access to the Internet, you've also got quick access to the Federal Deposit Insurance Corporation and the valuable information we offer to consumers.

When you arrive at the FDIC's Internet sites along the information superhighway, you can choose from an array of information that can help you be a smarter, safer banking customer:

- Read about deposit insurance coverage and other consumer protections, and even print our brochures "Your Insured Deposit" (a detailed summary of the insurance rules), "Insured or Not Insured" (a quick look at which products offered by banks are FDIC-insured against loss and which are not) and "Consumer Rights" (an overview of the laws that protect depositors, borrowers and other banking customers);
- Get information that can help you check out the safety and soundness of an FDIC-insured bank or savings association (Note: The FDIC does not release its ratings of individual institutions but provides the names of private companies that do. These listings are provided as a consumer service and are not an endorsement or confirmation by the FDIC.);
- Read about buildings, equipment, furniture, loans and other assets formerly owned by failed institutions and now available for sale to the public from the FDIC;
- Check out the latest FDIC press releases, and find out how to have



The FDIC's home page on the World Wide Web is a good starting place to get useful consumer information.

new releases e-mailed directly to you.

You also can send messages to the FDIC with your questions or concerns:

- E-mail our Division of Compliance and Consumer Affairs to get answers to specific questions about deposit insurance, fair lending rules and other consumer protections (Internet address: consumer@fdic.gov);
- Contact our Office of the Ombudsman if you have a question, concern or complaint about the FDIC (ombudsman@fdic.gov);
- Order subscriptions or request back issues of various FDIC publications, including **FDIC Consumer News** (pubinfo@fdic.gov); and

- Let us know about an issue you'd like addressed or a question you'd like answered in **FDIC Consumer News** (editorconsnews@fdic.gov).

For a complete listing of the FDIC's offerings on the Internet, check out our home page on the World Wide Web (<http://www.fdic.gov>). If you don't have access to the World Wide Web, you can find us via our "gopher" address ([gopher.fdic.gov](gopher://gopher.fdic.gov)).

The FDIC is committed to making as much useful information available to the public as possible, and we're updating our Internet offerings constantly, so when you're Cyber-surfing the Internet swing by the FDIC as often as you'd like.

Illustration: Larry Webb

How to Climb Safely Out of Debt

The ability to borrow money — and pay later for debts incurred today — greatly enhances our standard of living. It enables us to own a home, buy a car, send kids to college, take a vacation, and do many other good things. But each year millions of adults — of every age, income, race and profession — are swamped by the debts they've run up on credit cards and other loans.

And while half the Americans facing serious debt problems are said to have caused their own troubles — they were irresponsible in the ways they spent or managed money — the remaining half are responsible people who, often for reasons beyond their control, now struggle just to pay their monthly bills.

"Bad things happen to good people," explains Deirdre Foley, a New York-based supervisor in the FDIC's Division of Compliance and Consumer Affairs. "A serious illness can have a devastating effect on a family's financial health, primarily from medical bills and lost income. And in this era of downsizing, many hardworking, responsible people have lost their jobs or have been forced to accept positions at substantially reduced salaries."

What's especially troublesome is that debt overload can lead to health problems and divorce or separation, in addition to the prospect of losing a home or other property.

Take a look at the warning signs that appear in the box on the next page.

If you face a serious debt problem, *FDIC Consumer News* offers the following suggestions.

1. Spend less and save more.

Your family's welfare comes first, so make sure to keep up the payments on your home, utility bills and insurance premiums. But cut back on restaurant food, entertainment, long-distance phone calls and other unnecessary expenses.

It may seem impossible, but also start building an emergency savings account. You could need those savings if you lose your job or have a medical emergency. Ultimately, your rainy day fund should equal about three months of your net income. As you build your emergency savings, also begin paying off your bills.

2. Be smart about credit.

Interest payments are an expense, too, so try to pay off your highest-rate loans (usually from your credit card or department store charge card) with your lowest-yielding savings and investments. For example, if you're earning five percent interest on a deposit account but you're paying out close to 20 percent interest on a charge-card balance each month, you'd save far more than five percent by using the deposit account to pay off the card balance.

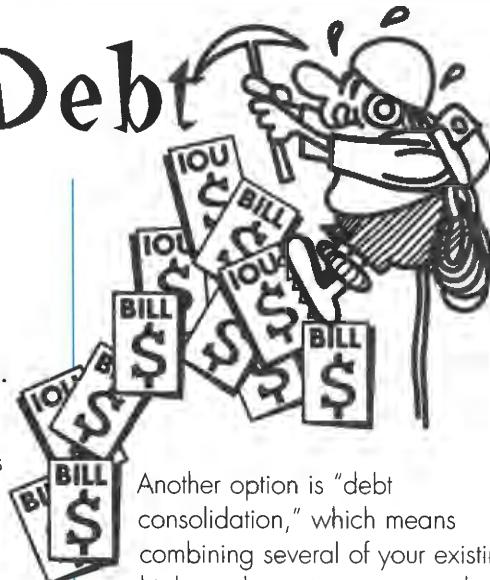


Illustration: Larry Webb

Another option is "debt consolidation," which means combining several of your existing high-rate loans into one new loan with a lower rate (perhaps a home equity loan if you're a homeowner). But closely study the interest rates and fees before signing up for a loan. For example, some low interest rates prominently featured in advertising actually may be short-term, introductory "teaser" rates or variable rates that, as noted in the fine print, may go up after a few months.

With future purchases, think twice before using your credit card. You'll probably just be adding to your debt load and your interest payments.

3. Know where and when to ask for help.

No one wants to admit to having problems managing debts. But don't let your pride stand in the way of getting help. Before you miss a loan payment, it's a good idea to talk to your banker and other creditors. Explain why you're having problems — especially any circumstances beyond your

(Continued on next page)

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control — and ask about getting some flexibility. Many lenders will agree to temporary or permanent reductions in your interest rate, monthly payments or other changes — especially if you've had a good record in the past.

Try to work out a solution early — before your credit cards get cancelled, your loans are turned over to a collection agency or you face the prospect of bankruptcy.

If you can't solve your debt problems on your own or with the help of your lenders, there are other reliable sources of help. Your lawyer, accountant or company's personnel office perhaps can offer guidance. There also are respected organizations that specialize in counseling debtors at little or no cost, among them:

- The National Foundation for Consumer Credit, a non-profit organization with 1,200 offices nationwide that advise consumers and even help negotiate with lenders (call 1-800-388-2227 for a nearby office);
- Bankcard Holders of America, a non-profit organization that educates consumers about credit cards and, for a small fee (currently \$15), offers a personalized debt reduction plan called Debt Zapper (524 Branch Drive, Salem, VA 24153, phone 540-389-5445); and
- Debtors Anonymous, a support group in various cities for people with money and debt problems, especially compulsive spenders (P.O. Box 400, Grand Central Station, New York, New York 10163, or call 212-642-8220).

4. Avoid credit scams.

Fraud artists target desperate consumers with offers of easy credit, guaranteed loans or the chance to clean up a bad report on file at a credit reporting agency. Very often they charge hefty, up-front fees for promises not delivered or services you can perform on your own.

Example: "Credit repair clinics" and "credit doctors" offer to erase a bad credit report for several hundred dollars. But under the Fair Credit Reporting Act, there is nothing these companies or anyone else can do to remove accurate negative information from your credit file for a set period (10 years for bankruptcy-related information, seven years for other negative details). If the information in a credit report is inaccurate, the same law gives you the right to dispute the information and get a correction, without having to pay any fee to a credit clinic.

In general, don't pay anything to a credit repair service until you actually get the loan or credit promised to you. Get all promises and costs in writing. And check out the company with the Better Business Bureau and a local government consumer protection agency (all listed in your phone book). If you think you've already been victimized, contact your state attorney general (also in the phone book) and the National Fraud Information Center (1-800-876-7060).

If you've had repayment problems but you want another chance to obtain credit, consider a "secured" credit card offered by your bank or

Seven Warning Signs of a Debt Problem

1. You're using credit cards for routine purchases you used to make with cash or checks.
2. More than 20 percent of your monthly net income is going to pay back credit cards and other loans (excluding a mortgage).
3. You're borrowing money to make payments on loans you already have.
4. You're frequently at, near or over the limit on your credit cards.
5. You're only paying the minimum required on your credit card bill.
6. You're paying bills late or putting off visits to the doctor because you don't think you have enough money.
7. You're working overtime or a second job just to cover food, housing and other living expenses.

another legitimate company. A secured card is just like any other credit card, except you must keep a deposit account equal to your credit limit. The money in the account then serves as the bank's guarantee against your charges. Assuming your record looks good after a year or so, you can apply for a regular, unsecured credit card. As with any loan, understand and compare the rates, fees and other conditions.

Final Thoughts

Many people have overcome debt problems and other financial setbacks, so you can, too. Above all, don't give up hope. With some help and determination, you can rise above any problems you're having with rising debt.

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For More Help

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. The regulators enforce consumer protection and civil rights laws, including prohibitions against discriminatory lending practices;



initiatives to prevent unfair or deceptive practices in deposit-taking or lending; and rules that encourage institutions to meet local credit needs.

For questions about deposit insurance coverage:

The FDIC offers protection to consumers by insuring 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 as listed below. The National Credit Union Administration insures deposits up to \$100,000 at federally insured credit unions and can be contacted at the address below.

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation

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

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 or
202-942-3100
Internet: 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 or
202-416-7076
Internet: ombudsman@fdic.gov

Other Key Regulators

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
Mail Stop 3-9
Washington, DC 20219
Phone 800-613-6743
Internet: consumer.complaint@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 St. and
Constitution Avenue, NW
Washington, DC 20551
Phone 202-452-3693

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.

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

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
Internet: <http://www.ncua.gov>

New Mortgage Rules Could Affect Escrow Payments

Do your mortgage payments include money for an escrow account that your lender uses to pay your property taxes, insurance premiums or other fees? If so, some new regulations could determine whether you have to pay more or less than in the past.

Under a new rule from the U.S. Department of Housing and Urban Development (HUD), lenders will be required to use one standard method to figure out how much borrowers must contribute to an escrow account. The rule is intended to end overcharges — to make sure escrow

payments don't exceed what is necessary to cover the likely expenses. The new rule could save many borrowers money in upfront closing costs and lower monthly payments on new loans, and it may trigger refunds on existing loans. For a few borrowers, though, the new accounting method could mean higher escrow payments if the lender's previous accounting method called for a lower amount.

The HUD rule covers new mortgages and refinancings starting April 24,

1995. If your mortgage was originated before then, your lender has the option to apply the new rules at any time, but no later than October 27, 1997.

Another rule involving escrow accounts, now being developed by federal banking regulators, is intended to carry out a 1994 law to make sure that borrowers who purchase flood insurance when a mortgage is made also maintain the coverage during the life of the loan.

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