FDIC Consumer News

INSIDE



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

SUMMER 1995 VOLUME 2, ISSUE 4

Illustration by T. W. Ballard

# MERGERS

## How Bank Mergers May Affect YOU!

# A Match (You Hope is) Made in Heaven

## *Bank merger mania: What does it mean for you?*

It's hard to pick up a newspaper lately without seeing news of some proposed or completed bank (or savings association) merger. The larger institutions grab the headlines, but the same activity is going on between banks of all sizes. Why?

- ***New legislation*** will allow banks in 1997 to go where they couldn't go before — across state lines, for example (except individual states can decide not to permit it).

- ***Economics.*** Banking is a business like any other, and profits are the name of the game. Bank earnings are being eroded by competition from other financial institutions and credit card-issuing companies like AT&T and General Motors. "Two can live as cheaply as one" really works in a bank merger, as combined institutions can cut costs by using one processing facility, fewer buildings, and of course, fewer personnel.

- ***Automation.*** Automated teller machines have sprung up like mushrooms. You can conduct just about all common financial transactions without setting foot in a traditional banking office. Some ATMs even take loan applications (and sell postage stamps and offer other services). A recent study predicts that half of all U.S. bank branches — and 450,000 bank jobs — will disappear over the next 10 years as customers increasingly turn to electronic transactions.

If you read, hear or see (because there's a new name on the door) that your bank is merging with another institution, you probably have some initial concerns. Your first thoughts may be: Can I still bank here? Can I still use my checks and my ATM card? Are my loan rates going up? What about my credit card? Are all my accounts still fully insured?

What does a merger mean for customers? For one thing, you should pay careful attention to any mail you receive from your bank or savings association. Written notice is usually provided about any changes affecting the terms of your accounts or loans, so don't throw away what may look like junk mail without looking at it first. Those notices may contain important information about changes in services, interest rates, checks, loans, credit and ATM cards and deposit insurance. Here are some of the possibilities:

### Services and Branches

One immediate effect of two institutions combining could be changes in the services offered and the fees for those services. Also, business hours may be changed, minimum balance requirements may vary, free checking may be offered (or not), new electronic banking services may be offered, etc. Again, you'll probably receive a notice explaining the details.

One of the more obvious results of a merger is the closing of branches. If banks that merge have branches near each other, it's often good business sense to close one or more of them. (Regular "brick-and-mortar" branches may be replaced by drive-up windows or ATMs, too.) It's also possible that the overall number of branches available to you may increase after the merger. Before a branch is closed, though, a notice usually must be mailed to customers of the affected office at least 90 days in advance. In addition, notices must be posted in the lobby of the branch to be closed at least 30 days before the doors actually shut for good.

### Interest Rates

A "new" institution typically will honor the original interest rate and other account terms for certificates of deposit (CDs) purchased at an institution that is acquired before the CDs mature. But rates paid on savings, checking and Negotiable Order of Withdrawal (NOW) accounts may be changed at any time (your "old" bank could do that, too).

### Checks

Checks written on your old bank should clear as usual. In most cases, you can continue using checks from your old checkbook until you use them up. The "new" institution will send you instructions about obtaining new ones. If your bank acquires another institution, you can probably continue as before; it's the customers of the acquired bank who will need new checks with the name of their "new" bank. Unless, of course, the name of the combined institution is something entirely different; then everyone will need new checks!

### Certification

After some mergers, depositors must "certify" their accounts at the new institution. In most cases, you can do this simply by making a deposit or withdrawal or filling out a new signature card. The purpose of this requirement is simply to make sure you are still alive and at the address on record. Contact your new bank to see what procedures may be in place. If certification is necessary and you don't do it, your funds could be turned over to the state after a certain length of time.

### Loan Accounts

If you were in the process of applying for a loan at the old bank when the merger took place but had not yet "signed on the dotted line," you should contact a loan officer or another official at the new bank to see if the loan would be approved, and if so, whether the same terms are available.

If you have an existing loan at an institution that has been bought by another, you should continue to make your loan payments as before until the new institution tells you to do otherwise. Business loans are more complex, so commercial customers may experience more changes to their loan accounts. All loan customers will be notified of any changes affecting their accounts.

The terms and conditions of the existing loan contract cannot be altered, but you should know what's in your contract. For instance, if a loan is "callable," an institution can request payment in full at any time. Check with your new institution. Loans are not generally called unless a poor payment history is reflected in the bank's records.

You may have a loan with a variable interest rate tied to a certain index. Just be aware that certain indices are more vulnerable to interest rate swings, with the result that your loan payment may be less predictable. (This is true whether your bank is merging or not.)

### "Plastic"

Institutions involved in a merger most likely issued their own ATM and credit cards before they joined forces. These operations will probably be combined and new cards issued. Merging institutions (and acquirers of failed banks, too) usually go to great pains to make sure there is as little disruption to electronic banking as possible during any changeover. Thus, you should be able to use your ATM card as before or until a new one is provided. The same is true for credit cards such as MasterCard and Visa. If you are issued a new credit card, you can expect the interest rate to fluctuate just as it did on the old one. And don't forget to check those fees — they could change. And if they do, you'll have to decide whether it's worth the effort — and the risk that other institutions will make similar changes — to switch to another card.

### Deposit Insurance

If you end up with more than $100,000 in the resulting institution after a merger, you're in no immediate risk of having uninsured funds. As a general rule most deposit accounts you had at one institution would continue to be insured separately from those at the "new" institution for six months. If you have CDs, this separate insurance coverage could last even longer, depending on each CD's maturity date. (See box on Page 4.) Consult your bank to determine the exact amount of insurance provided for your accounts.

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*FDIC*
*Room 7118*
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*Washington, DC 20429*

### Final Thoughts

In the unlikely event that a bank or savings association fails, these same rules apply, with a couple of exceptions. If a healthy institution takes over a failed one, the 90-day notice of branch closing is not required. Also, an acquiring bank or savings association is not always required to honor the original interest rate or other account terms on CDs. If the rate or terms are altered, however, customers can either withdraw their money without paying an early withdrawal penalty or accept the new rate. The new institution may only alter the rates and terms on existing CDs within a certain number of days after the closing (often 14 days). If your CD rate is lowered, it is no longer considered a CD; it is considered a savings account and receives separate insurance for six months.

The important thing to remember about a bank (or savings association) merger is that the acquiring institution wants your business, so it will be trying to keep you as a satisfied customer. Even if a merger has no immediate effect on you, it's a good idea to contact your new bank to see what additional or different services may be available and the locations of branches you can use, if you haven't already received that information.

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## *How Deposit Insurance Works In Merged Institutions*

When two insured depository institutions merge, their deposits continue to be separately insured for six months from the date of the merger. CDs continue to be separately insured until the earliest maturity date after the end of the six-month period.

CDs that mature during the six-month period and are renewed for the same term and in the same dollar amount (either with or without accrued interest) will continue to be separately insured until the first maturity date after the six-month period. CDs that mature during the six-month period and are renewed on any other basis, or that are not renewed and become demand deposits, will be separately insured only until the end of the six-month period.

Got that? If not, contact your bank or one of the FDIC's offices listed on Page 7 of this newsletter.

## *Old Banks Never Die . . . They Just Find New Uses*

The word "bank" usually conjures up an image of a solid, probably brick building that was meant to last for ages. And it should. Security requirements for bank vaults and safe deposit boxes, where people keep everything from cash to who-knows-what, mandate almost-impenetrable structures. When bank branches like these are closed following a merger — perhaps they're too close to other branches or they just don't generate enough business to warrant continued operation — or they shut down for some other reason, what do you do with them? You get creative:

- In Lancaster, PA, an ornate 19th-century two-story bank building including features like mahogany-paneled circular offices has been converted into a place for parties. It's very popular for festive occasions, especially wedding receptions, where gifts are placed in the former bank's vault with the doors open so guests can view the loot!
- In Washington, DC, a former bank office is a popular dance club where the vault is now a bar.
- In Seattle, WA, a coffee house now serves beverages to some of the same people who were served by tellers when the building contained a bank office.

So don't lament the loss of what may have been your favorite bank building. Many such offices are continuing to serve, though in different ways.

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# Watch Out! Scamsters are still out there!

## *Con artists can take your money before you know it*

Although it can happen to anybody, law enforcement folks believe a growing number of older adults are being swindled through old-fashioned confidence crimes that require the victim to make large cash withdrawals from the bank or unexpectedly write a check.

People of any age can be a victim of these con schemes — we'll detail some of the most popular scams in a bit — but older citizens seem to be more vulnerable than any other age group.

Why? Scamsters deliberately target older people because they think many retired persons are lonely and willing to listen. These con artists are very persuasive. Law enforcers also say that con artists believe seniors tend to respect authority figures, which is important to making many con games work. Also, many older people make good targets because they may be affluent. Finally, older citizens are generally too embarrassed to admit having lost money through a confidence game.

Investigators believe that fraud involving older citizens will be with us well into the next century, because the population is greying.

### Con Games That Endure

Let's look at some of these perennial confidence crimes, some of which have been around for centuries:

■ *The Phony Bank Examiner*

A depositor is called by someone claiming to be a bank examiner (or a policeman). The victim is asked to help uncover a suspected crime at the bank. In some cases they are told to call 911 to verify the caller's identity, but the call is picked up by the scamster, not the police.
This is done by the con man not disconnecting from the call or, investigators believe, by tapping into the phone service. The victim is asked to withdraw thousands of dollars and turn it over to the caller — and instructed not to discuss the transaction with bank employees. The victim is convinced to withdraw the money so that the "investigator" can mark the bills and catch the dishonest bank employee. Sometimes a second withdrawal is made, with the phony investigator perhaps promising a reward for helping with the investigation.

■ *The Pigeon Drop*

One of the oldest con games. This traditionally involves two con artists befriending the victim, then convincing the victim that a package of currency has been found and should be shared equally. The victim is then convinced to make a large bank withdrawal in order to put up "good-faith" money that will be returned along with a one-third share of the found money. The victim is then instructed to go to an office building to meet with an authority figure, like an attorney or a broker, only to discover the person doesn't exist and the suspects have fled with the victim's money.

■ *Bogus Home Repairs*

There are many variations on this scam. Essentially the homeowner is convinced of the need for some type of home repair or improvement. However, the workmanship and materials turn out to be inferior or even dangerous and the cost is far above the estimate. For example, a truck pulls up at your house and the driver tells you he just finished a big job nearby, but has enough sealant left over to do your driveway at a low price. The sealant may turn out to be, say, oil that will only mess up your shoes and wash off after a few rains. The victim, however, is then coerced into paying the bill, either in cash or by check, which is immediately cashed at the victim's bank.

■ *The Recovery Game*

After a victim has lost money in a scam, his or her name may be sold by one telemarketer to another. Or in another kind of scheme the con artist who talked the victim out of money may bring in another scamster who specializes in portraying a police officer or an investigator. The victim is then approached by the phony investigator who claims to want to help recover the victim's money. But first he will need some money...

### The Embarrassed Victim

The sad part of all this is that only about three percent to 10 percent of the fraud against seniors, like the

**(Continued on next page)**

types described previously, is reported. This according to John Bordenet, a senior program specialist in the Criminal Justice Services section of the American Association of Retired Persons.

Retired Americans, say experts in the field, often won't report that they've been victims of such scams, because they're too embarrassed. Also, they may fear that if they tell family members, it will mean an end to independent living.

The key to making these con games work is controlling the victim. In some cases that means the con artist will go to the bank and speak on behalf of the victim. Some banks have adopted a program developed in Milwaukee. It provides instructions to tellers on how to handle a customer, especially a senior, who wants to make a substantial withdrawal. A bank officer talks with the customer about the withdrawal and asks the customer to read and sign a form. This form points out how the customer may be a potential victim of a con game such as you have just read about.

The Milwaukee program attempts to give the potential victim time to think about the situation, away from the control of the con artist. It is control over the victim that often leaves the person saying, "I don't know what I was thinking" after he or she has been taken for a chunk — or all — of his or her savings.

You can fight back. Avoid being a victim yourself. See the pointers in the adjacent box on how you can protect yourself from the kind of con games we've discussed.

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## Protecting Yourself from Scams

### *A few things to remember about con games*

**1**. Con artists tend to be very friendly, have honest faces and are very persuasive.

**2**. Scamsters know quickly whether they have gained your confidence and you will fall for their line. When assertively challenged, most con artists will move on to easier targets.

**3**. These con artists are "gypsies" moving around the country and conning people out of their savings. Despite the impression they create, they don't want to be your friend; they only want your money.

**4**. Bank regulatory agencies, financial institutions and police agencies do NOT turn to the customers of a bank to withdraw personal funds or give account information as part of any investigation.

**5**. Be very careful — run — when you find yourself in a situation in which you are quickly called on by a stranger to write a check or to make a large withdrawal from your bank account.

**6**. If you find yourself in a situation such as any of those we've described, walk away and call the National Fraud Information Center at 1-800-876-7060 or contact the police.

Remember the shell game? It has been around forever; yet you can still see people trying to guess where the pea is...and always losing their money.

## New Rules Against Telemarketing Fraud

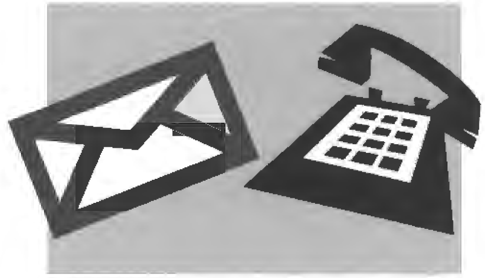
Chances are you've gotten telephone calls at home from charities asking for donations or from companies offering goods, services and even prizes. Although most of these calls are legitimate, some telemarketers are swindlers out to trick you into giving up cash, checks or valuable bank account information for little or nothing in return. The pricetag: about $40 billion a year in losses to consumers.

To better protect consumers, the Federal Trade Commission has issued new rules starting January 1,1996, that will require telemarketers to disclose cost, refund and other information before asking for any money. Telemarketers also cannot withdraw money from a consumer's checking account without first getting the consumer's written or taped authorization. The rules also ban telemarketers from seeking up-front payments before providing various services. Each violation is subject to a $10,000 fine.

If you think you've been victimized by telemarketing fraud, immediately contact the National Fraud Information Center toll-free at 1-800-876-7060. It will forward your report to the appropriate law enforcement authorities.

# For More Help

The FDIC offers protection to consumers by insuring deposits up to $100,000. The FDIC, as well as other regulatory agencies, enforces rules that promote sound banking practices, and compliance with consumer protection and civil rights laws. These protections include: 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:** Contact the FDIC's Division of Compliance and Consumer Affairs at the Washington or regional offices listed below.

**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.

**Office of the Comptroller of the Currency**
Charters and supervises national banks. (Often the word "National" appears in the name of a national bank, or the initials "N. A." follow its name.)

Compliance Management Division
250 E Street, SW
Washington, DC 20219
Phone 800-613-6743 or
202-874-4820

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**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 Avenue, NW
Washington, DC 20551
Phone 202-452-3693

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**Office of Thrift Supervision**
Supervises federally and state-chartered savings associations as well as federally chartered savings banks. (The names of these institutions 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.)

OTS Consumer Affairs Office
1700 G Street, NW
Washington, DC 20552
Phone 800-842-6929 or
202-906-6237

**Federal Deposit Insurance Corporation**
Supervises state-chartered banks that are not members of the Federal Reserve System. Operates the Bank Insurance Fund and the Savings Association Insurance Fund.

**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

**Atlanta Region** (Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia):
1201 W. Peachtree St., NE, Suite 1600
Atlanta, GA 30309
Phone 404-817-1300

**Boston Region** (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont):
200 Lowder Brook Drive, Suite 3100
Westwood, MA 02090
Phone 617-320-1600

**Chicago Region** (Illinois, Indiana, Michigan, Ohio, Wisconsin):
500 West Monroe Street, Suite 3600
Chicago, IL 60661
Phone 312-382-7500

**Dallas Region** (Colorado, New Mexico, Oklahoma, Texas):
1910 Pacific Avenue, Suite 1900
Dallas, TX 75201
Phone 214-220-3342

**Kansas City Region** (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota):
2345 Grand Avenue, Suite 1500
Kansas City, MO 64108
Phone 816-234-8000

**Memphis Region** (Arkansas, Kentucky, Louisiana, Mississippi, Tennessee):
5100 Poplar Avenue, Suite 1900
Memphis, TN 38137
Phone 901-685-1603

**New York Region** (Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virgin Islands):
452 Fifth Avenue, 19th Floor
New York, NY 10018
Phone 212-704-1200

**San Francisco Region** (Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming):
25 Ecker Street, Suite 2300
San Francisco, CA 94105
Phone 415-546-0160

Some banking matters may involve state laws. For assistance on these matters, please contact the appropriate state financial institution regulatory agency or state Attorney General's office. These state offices usually are listed in your telephone book and other directories.

For information about credit unions, contact the National Credit Union Administration, Office of Public and Congressional Affairs, 1775 Duke Street, Alexandria, VA 22314-3428. Phone 703-518-6330

## New Rates for Savings Bonds

The U.S. Treasury has changed the interest rate structure for Series EE Savings Bonds. Under Treasury's new rules, EE bonds issued on or after May 1, 1995, will earn market–based, floating rates right from the start. This differs from the old rules where bonds earned fixed–rates if redeemed before five years. The new rules are intended to give small–dollar investors a fair rate of return from start to finish.

New rates are announced each May 1 and November 1, and are tied to the market yields on Treasury securities. During the first five years, a bond earns a short–term rate of 85 percent of six–month Treasury yields. The short–term rate in effect through October 1995 is 5.25 percent.

As always, it's important to understand the rules for Savings Bonds. For example, interest is credited to the new bonds and to most older bonds every six months, which means a bond holder can lose up to six months of interest earnings simply by cashing in a bond days or weeks too soon.

For more information about Savings Bonds, ask at a depository institution that sells them or send a postcard to the Treasury Department's Bureau of Public Debt, Parkersburg, WV 26106-1328.



Federal Deposit Insurance Corporation
Washington, DC 20429-9990

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