

FDIC Consumer News



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

SPRING 1995

VOLUME 2, ISSUE 3

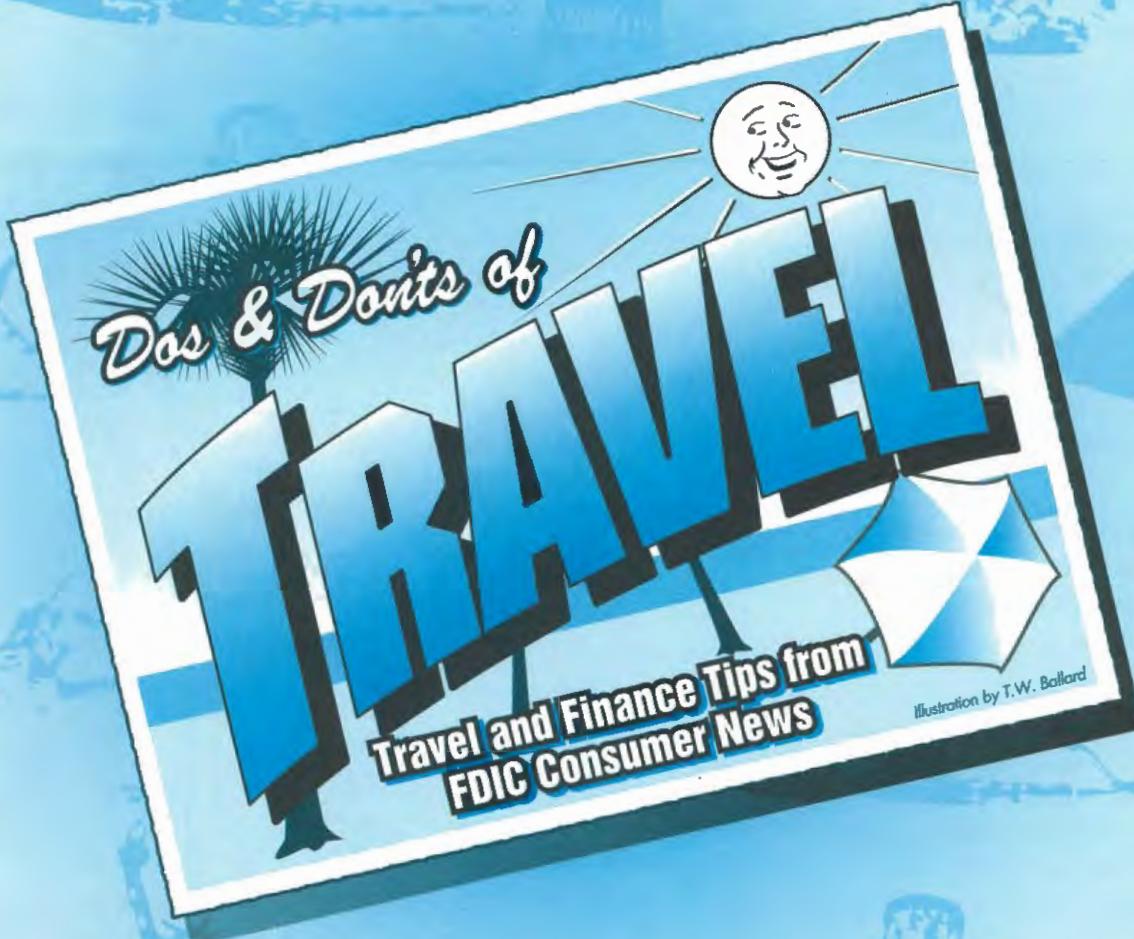


Illustration by T.W. Ballard

Don't Leave Home Without . . . making financial preparations

You're all set for that trip: you've packed the pails and shovels for the beach; you've taken an extra shirt in case the meeting runs longer than scheduled; you remembered the anti-seasick patches; you recharged the batteries for your laptop. You even remembered to stop the newspaper and mail deliveries. But unless you took a few minutes before you left to consider your financial needs, that business or pleasure trip could turn out to be a big fizzle - AND a major expense.

In the haste of preparing for a trip, it's hard to tear yourself away from the travel brochures, the ironing and the half-filled luggage to get practical and think of those finance-related steps you really should take. But a few minutes invested before you rush out for those last-minute, pre-departure items could save you a lot of grief - and MONEY - and greatly improve your chances for a pleasant journey.

The following checklist suggests several steps you should take before you leave.

1. Decide on the amount of cash, traveler's checks or credit you may need on the trip.

CASH - For your own security, it's not a good idea to take a lot of cash anywhere. If it's lost or stolen, you can't replace it. There are other reasons for avoiding cash as your principal medium of exchange: If you plan to get cash advances using a credit card at an automated teller machine (ATM), such transactions

can incur hefty fees, often a percentage of the amount withdrawn, and there's usually a daily limit on the amount you can withdraw (check with your card issuer before you leave). If you still prefer to use your bank or credit cards to get cash from ATMs outside of the U.S. - and many people do - you'll save yourself a lot of hassle by finding out in advance where ATMs you can use are located. ATM (bank) and credit cards generally use the CIRRUS or PLUS worldwide electronic cardreader system. The back of your card(s) should indicate which system is applicable. For locations of CIRRUS ATMs in the U.S., Canada and 60 other countries, call (800) 424-7787. For PLUS locations, call (800) 491-1145.

Many foreign ATMs use numbers, but not letters, so if your personal identification number (PIN) contains letters, be sure to convert them to numbers - using the standard telephone keypad as a guide - before you leave. Speaking of ATM cards, make sure you write down your financial institution's telephone number in case you lose yours. As for PINs, if you MUST write down your PIN - and it's generally recommended that you don't - put it somewhere separate from the card! And this is your chance to be inventive! People use various tricks to either remember their PINs or to write them in some way so only they know the real number. For example, you can write one or more

PINs as one long string of numbers - backwards. Another ploy is to add a number in front of and after your PIN number. You'll remember that you did that, but a thief won't know it. Or you can code your PIN into a word that's easy to remember. If you select your own PIN, the experts recommend that you do NOT use your birthdate or Social Security number - someone who takes a wallet containing a driver's license and an ATM or credit card can figure out your PIN pretty quickly.

If you're traveling out of the country, another important consideration is that you are likely to fare better



Travel illustrations by T. W. Ballard

on the exchange rate if you use a credit card to charge expenses instead of converting your cash to local currency. If you do convert currency, the fee is usually the same whether you convert \$20 or \$200, so convert larger rather than smaller amounts. Change money in a safe place and put it away in your wallet or purse immediately.

If you must take more than a few hundred dollars on a trip, make sure it's in a secure place, such as a money belt, a wallet in a pocket you can close with a button or zipper, or a purse with a shoulder strap that can be held tightly to your body. If traveling by plane, **DO NOT** pack cash in luggage to be checked through, in case it goes astray, and **NEVER** leave cash or other valuables in the glove compartment or elsewhere in your car.

TRAVELER'S CHECKS - Traveler's checks are the most popular way to avoid the perils of cash. Although they're usually treated like cash, some establishments may ask for a driver's license or other identification. Recently someone we know tendered a traveler's check in a San Francisco supermarket, and it was refused. The clerk apparently had some electronic means of authenticating the ID presented, and when questioned about the rejection, he asked, "The abbreviation for Maryland is MI, isn't it?" ("No, it's MD; MI is Michigan.") So be prepared for anything.

Some financial institutions (often based on the nature of your account relationships) and organizations, such as auto clubs, offer traveler's checks without a fee. (If your trip is a long one by automobile, this might

be a good time to join an auto club if you haven't already done so - more peace of mind, and help of many kinds on the road if you need it.) When you purchase traveler's checks, just make sure you store the receipts in a separate location in case the checks are lost or stolen.

CREDIT CARDS - If you decide to charge most of your expenses, and most financial experts think this is the best way to handle foreign travel (because the exchange rate may work in your favor), make sure the cards you intend to use have sufficient balances remaining. (Also, see story about credit-blocking on Page 10.) If you're nearing your limit, jot down the amount available so you don't exceed it. You can ask your card issuers if they're willing to raise your limit if necessary. Best to take these measures before you leave, rather than in a restaurant after you've received the bill for your meal, and especially if you plan foreign travel as some places have been known to arrest people for the transgression of exceeding their credit limit.

Another good reason for some cardholders to charge purchases: Many issuers of "gold" or "premium" cards, which have higher limits for more creditworthy customers, offer some kind of replacement plan for purchases that are subsequently damaged, lost or stolen.

One last advisory: Leave those unnecessary credit cards at home! Sure, the extra cards don't weigh anything and make you feel prosperous when you look at them. But if your cards are lost or stolen, you'll just have to go through that

much more aggravation to replace them. Most advisers agree: In addition to your bank (ATM) card, take either a major credit card like VISA, MasterCard or Discover (with sufficient available credit) and, if you have one, a travel and entertainment card like American Express or Diner's Club; they should meet all your foreseeable needs. And besides, there's probably no Lord & Taylor,

(Continued on next page)

FDIC Consumer News
is published quarterly by the
Federal Deposit Insurance
Corporation

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FDIC Consumer News
is produced by the Office of
Corporate Communications, in
cooperation with other FDIC
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Travel Tips

for example, at Yosemite National Park or in Ulan Bator.

By the way, if you have an affinity card that helps a specific cause – one issued by a financial institution in conjunction with a special group such as an environmental organization or your alma mater – using the card to charge the cost of a trip that may involve large expenditures can help your card-sponsor's mission. You may even want to obtain such a card for that specific purpose.

2. Pay bills before you leave, if possible.

You don't want essential services to be cut off while you're away on a long trip. Check the due dates on all bills – especially utilities and auto insurance – to see if payments will come due in your absence. It may be best to call utilities, insurance companies, credit card issuers and other creditors to find out what action they want you to take if you're going to be away for an extended period. There may be several choices: An electric company, for example, may hold the bill for your return or let you make an advance payment based on the previous year's bill. Or the company may agree to forward the bill to your temporary location. If you use phone banking, you can make those payments while you're away just as you would at home. Another alternative that may work depending on your circumstances: Leave payments with a reliable friend ready to mail on the appropriate date (which you can write just below the stamp).

An upcoming trip is also a good reason to consider signing up for

direct deposit of paychecks and government benefit checks, if you haven't already done so. With direct deposit, you don't have to worry about possible theft of the checks by mail and you know the funds will be in your account on a certain date – a comforting thought whether you're away or at home.

3. Stash your valuables.

Consider putting jewelry and other valuable items in a safe deposit box at your financial institution, but definitely not in the freezer (that's the first place burglars look for jewelry, they say).

More Tips

Here are some other tips that may not be directly related to your finances, but they'll reduce the possibility of trip-spoilers and stress – and keeping your blood pressure at an acceptable level is a great way to reduce medical expenses.

■ Plan your trip in advance. Get information about your destination from your travel agent, airline or auto club. Or call ahead. Many locations of special interest to travelers have their own tourist bureaus that will help if you arrive needing a place to stay or assistance. Maps of your destination, no matter how you're getting there, are indispensable. If you're traveling by car, your auto club can be very helpful with maps, reservations, travel information and assistance if you need it while on the trip. A road atlas is always a handy item to have in your car. Know where your hotel is in relation to the airport or train station, for example. Otherwise you could arrive in town, hop into a cab to go to your hotel, and end up going one block – this

happened a few years ago in Rome to someone we know. (For more information about foreign travel, see box at right.)

■ Check your insurance. Ask your agent about this-trip-only extra insurance for any valuables that you're taking with you, such as cameras or expensive sports equipment (homeowner's or tenant's insurance policies generally provide only a partial reimbursement if such items are lost or stolen). Do NOT take expensive jewelry – you're inviting trouble if you do – except where it can be locked away in a vault when not being worn. You also may want to consider additional comprehensive automobile insurance if you're planning a lengthy trip by auto that includes potentially treacherous terrain. And know beforehand what your health insurance covers both in the U.S. and abroad.

■ Check your vehicle if you're driving any significant distance and make sure it's in tiptop shape. You may spend what seems like a lot to achieve that goal, but preventive maintenance could save you many hours of anguish on the road. Also, if you're going to park outside frequently and leave luggage in the trunk, a reinforced trunk lock or car alarm may be a good investment.

■ Copy important documents and make a list of important numbers.

Copy these items: Passport identification page, driver's license, vehicle registration, airline or other tickets and your itinerary. Make two copies – leave one at home with a relative or friend and carry the other

one with you separately from the items themselves. If you're planning a prolonged absence, you may wish to provide a copy of your itinerary to your attorney or accountant.

Important numbers: This list could include phone numbers for your credit card company and bank, your insurance companies' phone and policy numbers for your home and vehicle, your health insurance company's phone and your policy number, the name and phone number of a neighbor; and any other numbers that you think you might need or find helpful on the trip. It's probably not a good idea to include credit card numbers or your Social Security number on this list, because the information could fall into the wrong hands. Carry the list with you; don't pack it.

■ **Notify police, neighbors and others of your expected absence.** Yes, notify your local police if you're going to be away for more than a few days, but do not use 911. (You should keep the non-emergency number of the police handy in any event.) Leave with a (trusted) neighbor: a set of keys; burglar alarm code, if any; a copy of your itinerary or a phone number where you can be reached; phone numbers for close relatives; and if you're a homeowner, especially if someone is house-sitting, phone numbers for repair services such as heat-AC, plumber, and cable TV. Don't advertise your absence. Ask a neighbor or friend to pick up flyers, free papers and other items delivered to your door that you can't stop.

Okay - you've taken all the pre-trip

Traveling Abroad? The Department of State has help

The U.S. Department of State's Bureau of Consular Affairs issues

Consular Information Sheets

for all countries of the world. They describe unusual entry or currency regulations, health conditions, the crime and security situation, political disturbances, areas of instability and drug penalties. Consular Information Sheets generally do not give advice. Instead, they describe conditions so that travelers can make informed decisions about their trips. In some cases, the Department of State may issue a **Travel Warning** recommending that travel to a particular country be deferred.

To obtain Consular Information Sheets and Travel Warnings:

To listen: Call (202) 647-5225; use touchtone phone.

By FAX: Use handset and dial (202) 647-3000; follow prompts.

(Note: These are toll calls outside of the Washington, DC, area.)

Via computer/modem: available through many electronic bulletin boards, including Consular Affairs Bulletin Board (CABB). Call the CABB at (202) 647-9225, setting your software to N-8-1.

The same documents are available at regional passport offices (check the U.S. Government pages in your telephone directory for nearest location), as well as through your

airline's or travel agent's computer reservation system.

In addition, the following State Department publications are available free of charge via the same FAX or computer/modem numbers provided previously, and by phone or mail from the U.S. Government Printing Office (GPO) at the cost noted:

Your Trip Abroad - tips on obtaining a passport, preparing for your trip, other resources for travel, and customs hints (\$1.25)

A Safe Trip Abroad - precautions to take to minimize the chance of becoming a victim of terrorism or crime (\$1.00)

Travel Tips for Older Americans - special health, safety and travel information (\$1.00)

To order these booklets from the GPO, send your name, address and a check or money order (not cash) and the names of the publications to:

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

or phone:
(202) 512-1800.
Allow four weeks for delivery.

■ ■ ■

recommended steps that will work for you, you've copied important documents and you've given copies to the appropriate people. And you've made a list of important numbers. Now read the following

stories, which provide more tips and help. Then you will be 99 percent care-free. Go - and have a GREAT time!

■ ■ ■

Got a Yen . . . to learn about foreign exchange?

The value of the U.S. dollar has an impact on all our lives, not just those of us who travel abroad. So what does it mean when the dollar is "up" against the French franc or "down" against the Japanese yen? Is it better to have a "strong" or a "weak" dollar? Who determines the value of the dollar versus foreign currencies?

Economic conditions in the U.S. play a big role in why the dollar fluctuates in value. An example: Large trade deficits mean dollars are flooding the world markets, causing a greater supply than demand, which creates a weak dollar. And if foreign investors think U.S. interest rates are heading down, they'll put more money outside the U.S. looking for higher rates, which lessens the demand for dollars and weakens the dollar's value.

When the dollar is weak – or down – against a foreign currency, that means it takes more dollars to buy the same amount of foreign money, and items you buy while abroad will cost you more. When the dollar is strong – or up – against a foreign currency, that means it takes fewer dollars to buy the same amount of foreign money, and items you buy while abroad will cost you less (or as many like to look at it, you can buy more stuff).

Let's say you're planning a trip to England and you're told a cab ride from the airport to your hotel in London costs 25 British pounds. If it takes \$1.50 to buy one British

pound, that cab fare will cost the equivalent of about \$37.50 ($\1.50×25). If at the time of your trip the dollar has weakened, however, it might take \$1.75 to equal one British pound. That same 25 pound cab ride would end up costing you about \$6.25 more ($\$1.75 \times 25 = \43.75). Likewise, if the dollar gets stronger, that cab ride might cost you only \$1.25 per British pound, or \$31.25 ($\$1.25 \times 25 = \31.25).



This same principle applies to anything else you might buy – souvenirs, food and so on – while you're away.

U.S. travelers abroad aren't the only ones who don't like a weak dollar. American consumers who love all things foreign are hurt by a falling dollar. That's because when the dollar is weak, imports cost more. However, U.S. products will cost less in foreign countries. In theory, this

should lead to more American products being sold abroad (and thus, more jobs created in America). Or on the other hand, when the dollar is strong, imports cost less, and U.S. products will cost more in foreign countries.

Many people planning a trip try to predict what a foreign currency will be worth in the future. If they think the dollar will be strong they may hold off converting their dollars until right before they depart. Or if they think the dollar will be weaker, they may convert their dollars several weeks before they depart. It's a tough decision to make. It's like trying to predict what a stock will be worth on a certain day.

As a general rule, you shouldn't exchange all your money at one time because you could end up guessing wrong or converting too much money and losing again when you convert back to dollars or to another currency. Just because you got a good price exchanging dollars for pounds doesn't mean you'll get a good price exchanging pounds for French francs.

So, the next time you hear somebody say, "It's not a good time to go to Europe," you'll know they're not talking about the weather, but rather the value of the dollar. Just realize it's out of your control and enjoy your trip.

■ ■ ■

Trouble on the Trip . . . and how to cope with it

Any time you travel, whether for vacation or business, you should expect a few hassles and headaches along the way. Who among us hasn't had a flight delayed or cancelled, a reservation lost, a car break down, or the kids in the back seat yell "Are we there yet?" every 15 minutes. But consider yourself extra-smart or extra-lucky if you've never yelled "I'm all out of cash!" or "I lost my wallet!"

Apart from medical emergencies, not much can ruin a trip faster than money problems. That's why we offer the following tips to help you cope with common financial frazzles far from home.

1. Protect yourself from thieves and scam artists who target travelers.

We want you to relax on your trip, not worry about evil lurking behind every rack of postcards. Even so, you still need to take some basic defensive measures.

First, don't flaunt your cash, charge cards, fancy clothes or expensive jewelry (or even expensive-looking jewelry). Among the people you may be impressing could be robbers.

Pickpockets thrive in certain cities abroad, so zip or close that purse! Aside from the tendency of an open purse's contents to fall out, you're inviting pickpockets to help themselves. Another purse hint: If yours closes with a flap, carry it with the flap toward your body; you're

likely to notice if someone tries to open it.

Don't set down your wallet or keys in public places, even if just for a few seconds. But also don't try to be a hero if a thief has a firm grip on one of these items, or even on your car. Most experts agree that you shouldn't fight back against a stronger attacker who's after your valuables. These things can be replaced; you can't!

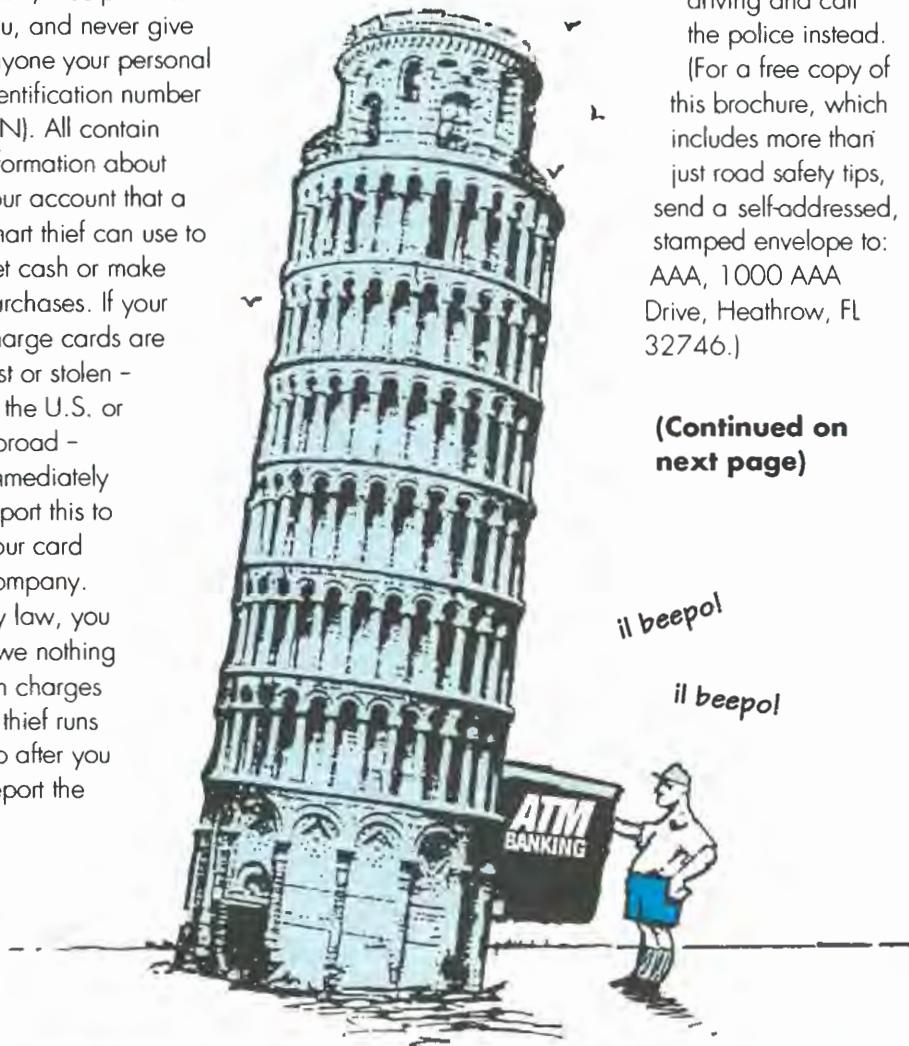
Always take your charge card and automated teller machine (ATM) receipts with you, and never give anyone your personal identification number (PIN). All contain information about your account that a smart thief can use to get cash or make purchases. If your charge cards are lost or stolen - in the U.S. or abroad - immediately report this to your card company. By law, you owe nothing on charges a thief runs up after you report the

problem to your card issuer. If the scoundrel uses your card before you're able to report the problem, the most you'd have to pay would be \$50, even if hundreds of dollars in unauthorized charges were made.

On the road, make sure your car is gassed up and locked up. Know your route and try to stay on main roads that are well lit. The American Automobile Association, in its *AAA Guide to Trouble-free Travel*, urges that you be suspicious of strangers, and don't even stop to help someone

with car trouble; keep driving and call the police instead. (For a free copy of this brochure, which includes more than just road safety tips, send a self-addressed, stamped envelope to: AAA, 1000 AAA Drive, Heathrow, FL 32746.)

(Continued on next page)



Travel Tips

At hotels and motels, you need to be concerned about thieves roaming the property as well as employees who have access to rooms and room keys. One of best things you can do is keep your extra cash, jewelry, passport and other valuables in the hotel safe - a service usually provided free of charge.

While you may not enjoy hanging out at airports, thieves do. They know airports are full of tired, hurried, confused travelers carrying cash, credit cards and other valuables. A common ploy is to engage you in conversation or stage a minor accident or disturbance just long enough to divert your attention. The next thing you know you're missing a wallet, purse, piece of luggage, portable computer or other belongings. This kind of theft usually occurs near ticket counters, X-ray machines, baggage check and claim areas, rest rooms, telephone banks or vending areas. The basic advice: stay alert and, once again, be suspicious of strangers.

2. If you find yourself short of cash, find yourself an ATM machine.

At any one time, you should only carry enough cash for phone calls, cab rides, tips and other small expenses. Instead, rely more on traveler's checks and charge cards because they are readily accepted by merchants and can easily be replaced if lost or stolen. But if you need cash fast any time of day, even in a foreign country, you can still get it from an ATM using the same cards you use back home.

In the U.S., any machine that accepts cards from your ATM network (look for the same logo that appears on your card) should work fine using your PIN number. Outside of the United States, ATM machines are more readily available and easier to use in Paris and Berlin than in Pago Pago and Bora Bora, so follow our advice (Page 2) and get information about ATM procedures and locations abroad *before* you depart. ATMs typically will dispense the local currency only, and at the prevailing foreign exchange rate.

A lot also depends on the type of card you use because fees and features will vary. Debit cards - the most common form of ATM card - automatically deduct from your bank or brokerage account, often with fees between \$1 and \$5 per transaction. Then there are charge cards, specifically credit cards (Visa, MasterCard, Discover) and travel and entertainment cards (such as American Express and Diner's Club) that you can use for cash advances from ATMs. You'll be billed later for these "loans," but you'll probably also pay more for this service than a debit card because you'll be paying interest on the money and higher transaction fees (either a flat fee or a percentage of how much you withdrew). All these ATM fees are just another reason to use traveler's checks or credit cards instead of cash as much as possible.

3. Banks, card companies, express delivery services and other businesses are there to help.

Maybe you can't find an ATM machine that'll take your card. Or

you don't have an ATM card. Or you're faced with an unexpected expense, maybe even a medical emergency. There are lots of ways to get emergency cash or arrange for payments, from practically anywhere in the world.

A nearby bank can arrange for a cash advance using a major charge card. Expect to pay a fee, most likely between \$2 and \$10, plus interest until the money is repaid. Or ask the bank to have money transferred electronically from your bank or brokerage account back home, probably for a fee of about \$25. Call your bank or charge card issuer (preferably on a toll-free number) to find out what other arrangements they can make to get money to you fast, and at what cost to you. In cases of a medical emergency, for example, your bank might allow you to withdraw from a certificate of deposit (CD) without paying an early withdrawal penalty.

Other possibilities: the U.S. Postal Service and private firms that help transfer money from one place to another. Ask how they can safely deliver traveler's checks and money orders or wire funds to your hotel or another location. (Don't have cash sent. It's too risky.) For some of these services, you might need to recruit a friend or relative to put up the money or do some of the legwork. Some of these companies also will cash personal checks for a fee. For the names of individual firms, look in the phone book under such headings as travel agencies, delivery services, and money order services. Or get recommendations from the managers at your hotel, tour company or other businesses you're dealing with.

Travel Tips

If your problems are tied to a lost or stolen wallet, call your charge card issuers immediately and even contact your property insurer. Certain charge cards provide emergency cash, automatically protect you from unauthorized card use and otherwise help out. Some home, auto and "umbrella" insurance policies offer protection against theft of property (including cash) and the fraudulent use of your credit cards or checks, even if the problem started far from home.

And don't hesitate to call your bank if, before you left, you forgot to make

an important loan payment, deposit enough money to cover a big check you wrote, or otherwise take care of a financial obligation. Chances are you can work something out that'll remedy the situation and get it off your mind.

4. If you're in dire straits outside the States, contact the American embassy or consulate.

What should Americans do if they're traveling abroad and have serious legal, medical or financial problems? Contact the U.S. embassy, which is usually in the

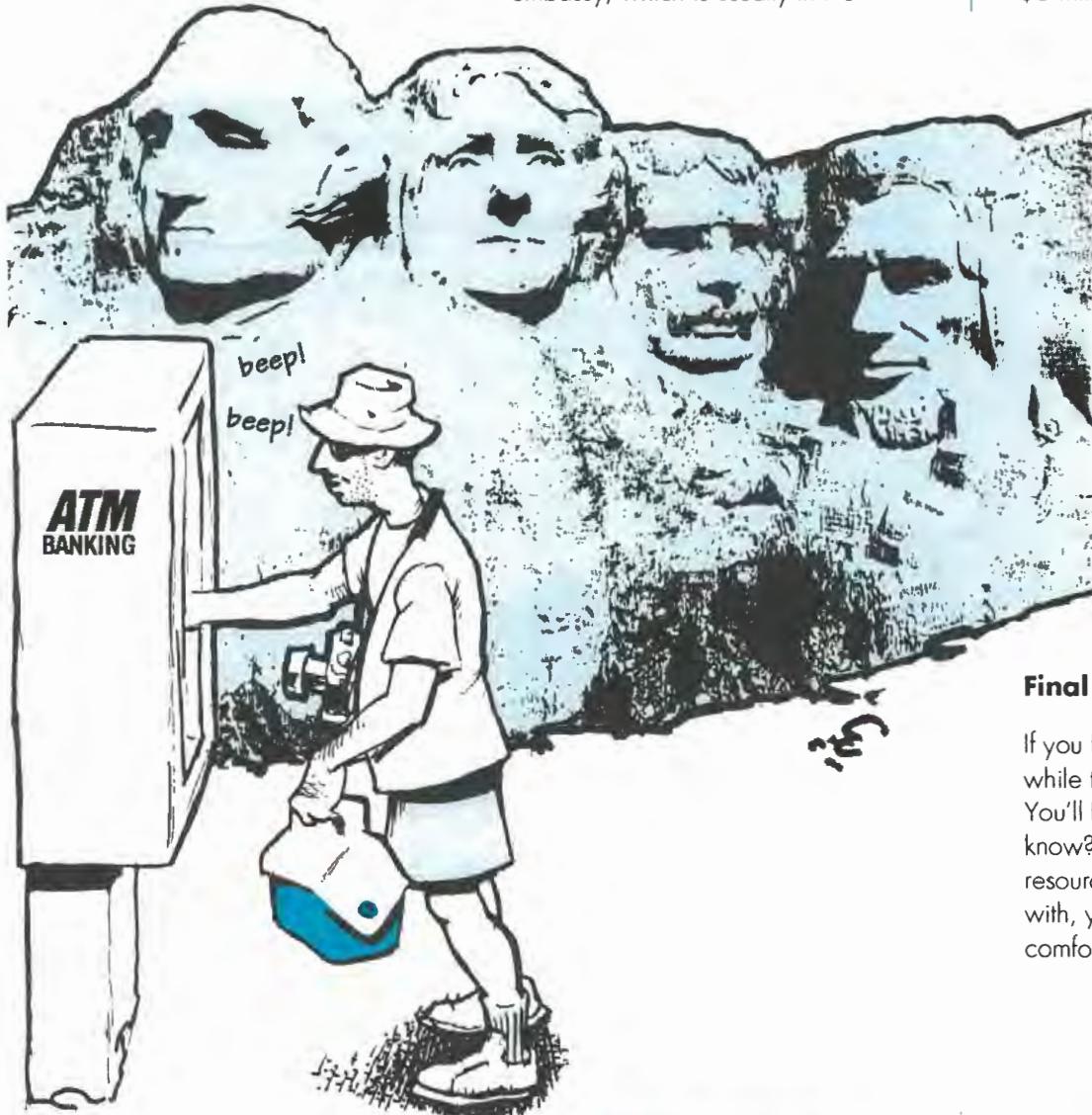
country's capital, or a regional consulate.

Embassies and consulates don't have the resources to provide banking services for routine travel problems or to call your bank or credit card company. But if you're truly destitute, the embassy will help you contact family, friends or business associates who can send money, and will help arrange for the funds to be transferred.

According to the State Department, its American Citizens Services (ACS) unit transfers approximately \$3 million a year in private

emergency funds and even arranges for small government loans until the money arrives.

ACS each year also provides about \$500,000 in loans to pay for needy Americans to return to the U.S. For more information about consular services for Americans traveling abroad, see the box on Page 5.



Final Thoughts

If you find yourself in a financial bind while traveling, keep a cool head. You'll find a solution. How do we know? Well, if you weren't resourceful and adventurous to begin with, you wouldn't have even left the comfort and security of your home.

...

Giving Credit Before Credit is Due

What you should know about credit card blocking

Credit card blocking is like having a slow leak in your spare tire: You are not aware of the problem until you need to do something about it.

Credit card blocking most often occurs when you rent a car or check into a hotel. It happens when you present your credit card and the clerk electronically asks the bank that issued the card to "block," or reserve, part of your line of credit to cover the expected cost before you go out and use it for your other vacation purchases. If it's a hotel, what's blocked — usually on arrival — could be the cost of your room for the length of your stay, plus incidental expenses you may incur, like meals and phone calls. In the case of cars, it could be the cost of the rental, plus gasoline. The Federal Trade Commission says the amounts that can be blocked "vary widely among merchants."

There is nothing sinister or illegal about it, as long as the amount blocked isn't out of line with what the customer is likely to pay at the end of the transaction. And most consumers are not aware that it happens at all, because the blocked amounts don't come close to their credit limits. But if you leave on vacation with your credit card near the limit, or if you are a business traveler who spends long periods on the road, you should be aware of credit blocking. This is because any additional transactions you attempt after you hit your credit limit would be rejected.

If the only block you want to be concerned with on your vacation is sun block, you might want to heed these tips from the FTC:

- Pay the bill using the same card you presented at the beginning of the transaction, so that the actual charge replaces the block in a day or two. If you use a different card to pay the bill, the block could remain on the original card for up to 15 days.
- When you check into the hotel or pick up the rental car, ask the clerk how much is being blocked, and how the amount was determined. This will allow you to factor the amount into your spending plans.
- If you use a different card or cash when it comes time to pay, ask the clerk to remove the block from the

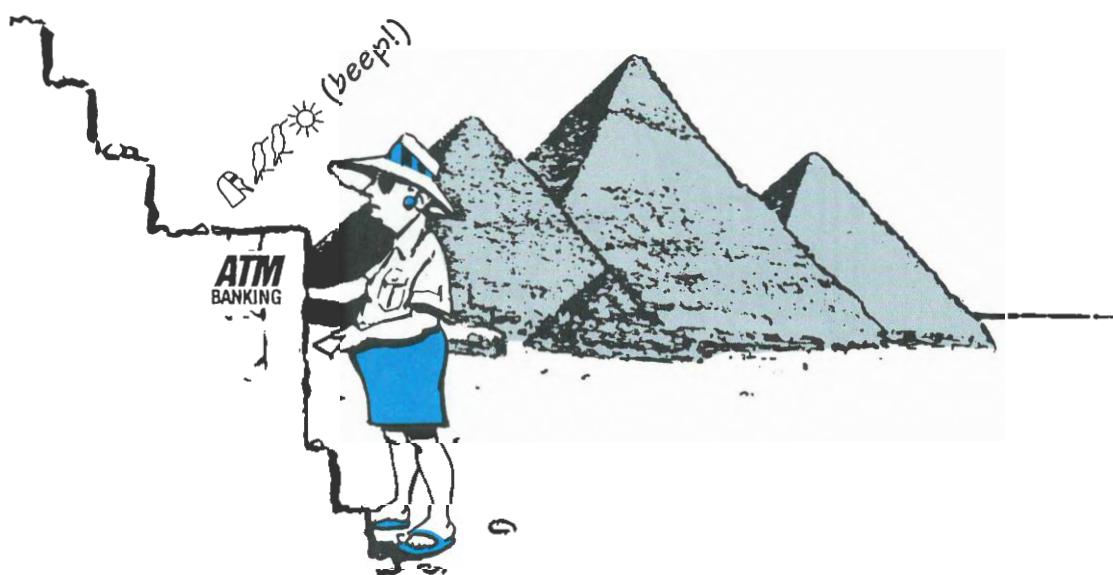
original card or call the issuer yourself.

Ruth Susswein, executive director of Bankcard Holders of America in Salem, Virginia, said some issuers will remove a block at the consumer's request, if they see the bill has been paid.

If you are trying to select from among potential credit cards, you might want to call the issuers to find out their policies on blocking, the FTC suggests.

Before you set off on your travels, you might want to call your credit card issuer and ask how long blocks are kept on credit lines. As important, Susswein said, ask how much of your credit line is available to you.

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The Mailbag

Answers to your questions about deposit insurance and other consumer protections



"Free" Checking

I have a "free checking account" at a federal savings bank. But in order to receive the free part, I must maintain \$500 in a savings account, certificate of deposit or a money fund. I was under the impression that no restrictions could be placed on a "free" service advertised this way in a bank. What's your answer?

- Seattle, WA

Without knowing more specifics, we can only say that a minimum balance requirement connected to a "free" account appears questionable.

Under the Federal Reserve Board's "Regulation DD," which implements truth-in-savings laws, a depository institution can't advertise an account as "free," "no cost" or something similar to that if any maintenance fee or activity fee could be imposed. That would include a fee for going below a required minimum balance.

So, if your deposit contract says a fee will be charged on your "free" checking account if that account or some other accounts go below a minimum balance, this appears to violate Regulation DD.

By the way, it's okay for your bank to advertise a free account but impose fees for services like check printing, automated teller machines and handling bounced checks.

We suggest you discuss any concerns about your account with a manager at the bank. If you're not satisfied with your bank's explanation, you can contact the federal agency that supervises your institution. In the case of federal savings banks like yours, the appropriate agency is the Office of Thrift Supervision. Addresses and phone numbers for the regulators appear on Page 15 of this newsletter.

U.S. Gold Reserves

Unless my calculator has failed me, a gold bar in the vault at Fort Knox, according the price of gold in the Wall Street Journal today would be worth \$129,789.00, not \$17,000 as stated in your winter issue on money.

- Mattoon, IL

I toured the Denver mint in March, where they have a display of gold bricks said to be worth around \$1 million, making each bar worth close to \$170,000. Is your \$17,000 amount an error, or are there other circumstances which would make both amounts correct?

- Alpena, MI

I went through the math and arrived at the conclusion that each brick is worth \$170,000. Someone dropped a zero!

- Palm Desert, CA

Actually, we were correct. Here's the explanation provided by the Gold Institute, an international trade association: Most governments hold some international reserves in gold. Because the gold isn't available for trading, governments don't go to the trouble of reevaluating it on a daily, weekly or even monthly basis. The United States government values its gold reserves at an artificial price of \$42.22 per fine Troy ounce, an amount that goes back to the 1930s.

Thus, the value of a gold bar in Fort Knox at \$42.22 per ounce is worth about \$17,000, but at a market price of, say, \$400, it's worth about \$170,000. Thank you, alert readers, for the opportunity to set the record straight.

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Please Write!

Is there an issue you'd like addressed or a question you'd like answered in FDIC Consumer News? Please send your thoughts and suggestions to:

Jay Rosenstein
Senior Writer-Editor
Office of Corporate
Communications
Federal Deposit
Insurance Corporation
550 17th Street, NW
Washington, DC 20429

How Revocable Trust Accounts are Insured

A look at one way the FDIC can protect your family fortune

No matter what your age or income level, you've probably given at least some thought to the best ways to pass along assets to your loved ones when you die or if you become incapacitated. There are many types of wills, trusts and other estate planning arrangements you can choose from, each with its own pros, cons and costs. While we can't advise you on what method of estate planning is best for you - that's more appropriate for your accountant or lawyer - we want you to be more informed about your choices and their impact on FDIC insurance coverage.

This article focuses on "revocable trust accounts," which are very common at banks and other depository institutions even though you may not be familiar with them. It's quite possible that you have such an account at an FDIC-insured bank or savings and loan association. Maybe you know it by another name, such as a payable-on-death account. Or maybe you're the beneficiary of a revocable trust account but you're not aware of it because the account was established by a relative or friend.

At the same time, we know from the many questions and letters we receive that revocable trust accounts and the insurance rules governing them can be confusing. In fact, while the FDIC insurance rules governing revocable trust accounts are very

generous, some depositors who didn't understand the rules ended up losing funds that exceeded the insurance limit when their bank or savings and loan failed. The most common mistake: listing people as beneficiaries who do not meet the eligibility requirements (explained later).

So you can understand and take advantage of the benefits of revocable trust accounts, we offer the following information. To explain how FDIC insurance can protect *your* family fortune, we're also going to introduce you to *our* Fortune family: Mom and Dad Fortune; their son Wheeler Fortune, who works for a popular TV game show; their daughter Talia Fortune, a palm reader; and their daughter Cookie Fortune, a baker. We've asked the fictional Fortune family to establish various revocable trust accounts to help us describe the insurance rules.

Types of Trusts

First, some words about trusts in general and revocable trusts in particular.

A trust is a legal entity created by one or more people (called the grantor or settlor) to benefit designated beneficiaries. If properly titled, a traditional certificate of deposit (CD), passbook account or other savings account can be turned into a trust account.

The type of trust called the revocable trust seems the answer to many estate planning prayers. It is a mechanism by which you can, at your death, pass along your wealth to loved ones while avoiding the delay and legal expense of probate (the process of legally establishing the validity of a will). It allows you the use of your money while you're alive. And it permits you to change your mind about such things as who should inherit the funds.

In general, there are three kinds of revocable trusts.

The first, and perhaps the most common, is the payable-on-death account (sometimes referred to as a "Totten trust" or even a "poor man's trust"). This is an account where there is no trust document spelling out who will inherit the funds, but there *is* something in the title of the account indicating that, upon the depositor's death, his or her funds will be payable to a named beneficiary.

A second type of revocable trust can be one created and ruled by a complex, often lengthy, written trust document. These often are referred to as "written revocable trusts."

The third type is an account between these two extremes - a kind of short-form trust that is written on the account's signature card held at the financial institution.

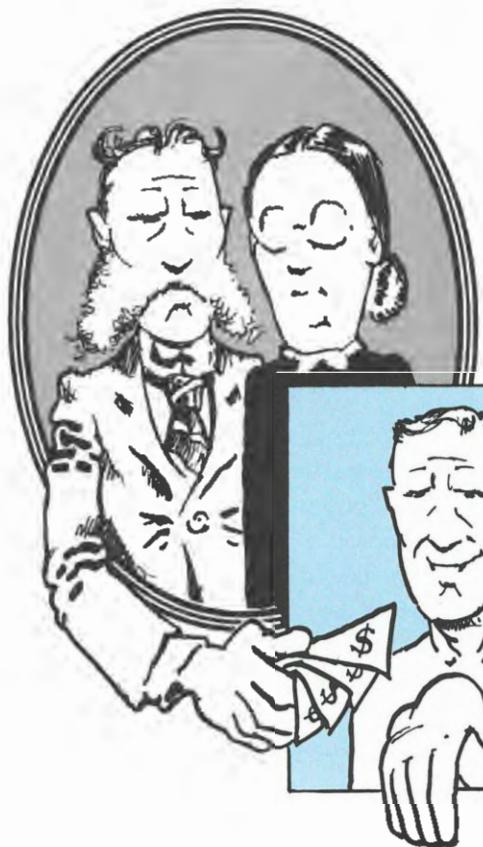


Illustration by T. W. Ballard

Insurance Coverage

As mentioned, if certain conditions are met, FDIC insurance is very generous with revocable trust accounts:

- A revocable trust account would be insured separately from the settlor's individual and joint accounts at the same institution. This means more insurance protection at that one institution.
- Each settlor can give a separately insurable portion of up to \$100,000 to *each* spouse, child or grandchild (including adopted children and grandchildren and step-children and step-grandchildren). If the settlor has several beneficiaries, this insurance coverage goes far beyond what

payable-on-death account in trust for their three children. If the Last National Bank were to fail, this account would be insured for the full \$600,000. Why? Because each settlor (Dad is a settlor, so is Mom) could give a separately insurable interest of up to \$100,000 to each beneficiary. Dad's interest passing to the three kids would be insured for up to \$300,000, as would Mom's. This coverage would be in addition to any other insured money that Dad and Mom had in individual or joint accounts at the Last National Bank. Now that's a good deal.

Special Conditions

But to qualify for this special insurance coverage, four requirements must be met.

would be allowed if the money were in an individual or joint account.

What could this mean for you? Let's check in on the Fortune family for the answer.

Suppose Mom and Dad have \$600,000 (including interest) at the Last National Bank in a

1. The account must be properly titled.

That means there must be some suggestion of the trust nature of the account in its title. A good title for a payable-on-death account would be "Dad and Mom Fortune POD (for "payable on death to") Wheeler, Talia and Cookie Fortune." An acceptable title for a revocable trust account governed by a full-fledged written trust document would be the "Fortune Family Trust."

2. The beneficiaries must be listed by name in the depository institution's account records.

The POD account mentioned previously already does this by listing the children's full names in the title of the account. But there are other options as well. An account for a written revocable trust also may be titled the "Fortune Family Trust," without beneficiaries listed in the title, but in such cases you should make sure the names of the beneficiaries are shown elsewhere in the bank's account records. Perhaps the best place would be on the signature card for the account. Or you can give the bank a copy of the written trust document governing the account, provided that it lists the beneficiaries.

3. The beneficiaries must be "qualifying beneficiaries" — that is, they must be the spouse, child or grandchild of the settlor.

The three kids certainly qualify. But let's say that instead the three

(Continued on next page)

beneficiaries were Grandpa and Grandma Fortune, plus Dad's cousin Lucky Fortune. Assuming Dad and Mom were to die and the Last National Bank were still in business, there's nothing wrong with this account. The full \$600,000 would pass to Grandpa, Grandma and cousin Lucky Fortune as planned.

But if the Last National Bank expires before Dad and Mom do, everyone stands to lose a lot of money. The account would not be eligible for the maximum insurance coverage because a settlor's father, mother or cousin (as well as an uncle, aunt, sibling or friend) are not qualifying beneficiaries. Instead, the FDIC would treat the \$600,000 account as individually owned funds of the settlors, with \$300,000 owned by Dad and \$300,000 owned by Mom. Assuming that Dad and Mom have no other funds in individually owned accounts at Last National, this \$600,000 revocable trust account would be insured for a maximum of \$200,000 - Dad would be individually insured for the maximum of \$100,000, and Mom would be insured for \$100,000. That would leave the remaining \$400,000 of the revocable trust account uninsured.

Here's another case of a trust-type account that does not qualify for insurance as a revocable trust. When a husband and wife together establish a revocable trust account with one or both of them as the sole beneficiaries, the account will be insured as a joint account, *not* as a revocable trust account. Example: an account in the form of Dad and Mom in trust for Dad and Mom. If the bank fails when Dad and Mom

are still alive, this account would be insured to \$100,000 as a joint account of Dad and Mom. It would be treated as a joint account because the surviving co-owner would own the entire account after the first co-owner died.

4. When the last settlor dies, the funds must clearly belong to the beneficiaries in the trust.

The FDIC refers to such beneficiaries as having a "vested interest" in the trust. If the beneficiaries receive an outright distribution of the trust funds when the last settlor dies, as they do in a simple payable-on-death account, that is clearly a vested interest in the trust.

However, there are other kinds of vested interests. If a written trust document prevents the trust funds from reaching the beneficiaries for some time after the death of the last settlor, or gives a trustee the discretion to make the payments, or puts conditions on the use of the money by the beneficiaries, you should consult the FDIC for how the trust account would be insured.

Final Thoughts

People frequently ask the FDIC, "How should I change my trust to get the maximum coverage from my trust account and my other types of accounts that are held at the same institution?" Usually, the answer is NOT to change the terms and goals of the trust. After all, you probably have good reasons for naming certain beneficiaries or for putting limits on how the money can be

used. If maximizing insurance is important to you, it may be better to distribute the trust's funds among separately chartered institutions and maximize your insurance that way. Those funds would be separately insured, even if they are part of the same trust. (Remember that this rule applies to deposits in **separate** institutions, not separate branches of the **same** institution.)

If you haven't looked at your trust accounts for a while, consider doing so. You'll want to make sure these accounts still reflect your wishes and that they are structured to receive the maximum deposit insurance. Then, if you still have questions about your insurance coverage, contact one of the FDIC's offices listed on Page 15 of this newsletter.

For answers to insurance questions involving a complex written trust document, though, you may wish to write instead to the FDIC's Legal Division, 550 17th Street, NW, Washington, DC 20429, providing all the details you can. A staff member will respond. (Please include a daytime phone number.)

The rules about deposit insurance coverage, including the insurance rules for revocable trust accounts, also are explained in the FDIC's pamphlet, "Your Insured Deposit," which is available in English and Spanish. You can ask for a free copy at your financial institution, or write to the FDIC Reading Room, 550 17th Street, NW, Room 7118, Washington, DC 20429.

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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.

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 St., SW, Washington, DC 20219
Phone 202-874-4820

Federal Reserve System

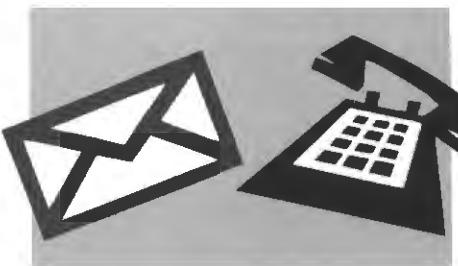
Supervises state-chartered banks that are members of the Federal Reserve System.

Division of Consumer and Community Affairs,
20th Street and Constitution Avenue, NW,
Washington, DC 20551
Phone 202-452-3693

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



For questions about deposit insurance coverage: Contact the FDIC's Division of Compliance and Consumer Affairs in Washington or the regional offices listed below.

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
202-898-3773

Atlanta Region (Alabama, Florida,
Georgia, North Carolina,
South Carolina, Virginia, West Virginia):
One Atlantic Center, Suite 1600,
1201 West Peachtree Street, NE,
Atlanta, GA 30309
404-817-1300

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

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

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

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.

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

Memphis Region (Arkansas, Kentucky,
Louisiana, Mississippi, Tennessee):
5100 Poplar Avenue, Suite 1900,
Memphis, TN 38137
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
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
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.

Coming Soon...

Technophobia— Readers' Own Stories!!

Are you now or have you ever been . . . afraid to use an automated teller machine (ATM)? Fearful of phone banking? Confused about computers? Intrigued by the Internet? Just plain terrified of technology?

Tell us your story.

What happened when you tried to use any of these newfangled contraptions? How did you overcome your terror, if you did? We'll pick some of the more helpful stories and pass them along to our readers. And we'll try to provide some help of our own.

Write to: Jay Rosenstein, Editor, FDIC Consumer News, 550 17th Street, NW, Room 7062, Washington, DC 20429. Please include your name, address and phone number. No names will appear in print.

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Consumer News

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