FDIC Consumer News

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

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INSIDE

Protect Your Plastic...

Con artists are getting smarter, but you can fight back

If you're like most people, you probably think that locks on your doors and windows will protect your hard-earned money from thieves. But nowadays, that's not enough. Sophisticated con artists are taking, and making, credit cards to steal hundreds of millions of dollars each year. They are doing this by targeting areas of homes and offices you might never suspect. Places like the telephone, the mail box and even the garbage left outside.

In Washington, DC, for example, nine postal workers were among 40 people arrested in the past year and charged with intercepting or stealing mail that contained credit cards, applications from banks for "pre-approved" credit cards, blank checks and other items. Authorities say that the suspects ran up cash advances and credit card charges totaling millions of dollars.

Consider this recent case in California, where a group was accused of stealing car rental contracts to get the account numbers of legitimate Visa and MasterCard credit cards. According to the U.S. Attorney's Office in Los Angeles, the defendants encoded the legitimate card numbers onto counterfeit cards, along with a fictitious name. Next they made fake IDs in the name of the fictitious card holder, complete with a photo of one of the conspirators. That person then would then be sent to banks around the country to get cash advances totaling thousands of dollars, using the phony card and ID. The real account holders discovered they'd been victimized when they found unauthorized charges on their monthly statements.

"Treat your credit cards with as much care as you treat your cash," warns Eugene Seitz of the FDIC's Division of Supervision in Washington, who helps investigate fraud and other criminal activities involving banks. "In fact, to a thief, your credit card and even your credit card number can be *more valuable* than cash. Your account number and a little personal information about you

Illustration by: T.W. Ballard

can be enough for the thief to purchase goods and services by telephone or produce another card."

There's no need to panic. Credit card companies, merchants, the U.S. Postal Service and others handle millions of transactions and pieces of mail each day without incident. Card issuers and law enforcement authorities also are improving their defenses against scam artists. And even if a thief ***does*** use your name or card number to run up hundreds of dollars of charges, by law you're only liable for a maximum of ***$50 per card.*** You owe nothing on charges run up after you report the problem to your credit card company.

But while the law protects you against ***major*** losses, here's the bad news: Getting replacement cards and clearing up other problems, such as any damage to your credit record, can be time-consuming and frustrating. Also, one reason interest rates on credit cards are higher than on other types of loans is because the financial institutions that absorb most of the losses often pass these costs along to card holders. Mark Lowery, a Special Agent in the Financial Crimes Division of the U.S. Secret Service in Washington, offers another reason to be concerned about credit card fraud: "Funds that are stolen are used to purchase guns and drugs, which have a negative effect on our entire community."

What can ***you*** do to prevent being victimized by credit card fraud? ***FDIC Consumer News,*** based in part on interviews with officials at the FDIC and other government agencies, put together this list of tips:

1. Never give your card number, confidential "PIN" (personal identification number) or similar personal information over the telephone unless you originate the call or you trust who's on the other end of the phone.

Many of the worst scams reported by consumer protection agencies involve phony "telemarketers." It doesn't matter how friendly the caller sounds. If he or she promises prizes, vacations or low-cost goods or services that seem too good to be true, this could very well be a scam to get your credit card number, checking account number or check.

Illustration by: T. W. Ballard

According to Special Agent Lowery: "If you get a suspicious call, first check the company out with your local Better Business Bureau. If you believe you've been victimized by a telemarketer, contact the police or your local office of the Secret Service, which is listed in your telephone book."

And if the caller claims to be a banker, bank regulator or law enforcement official asking to "verify" your card number or other personal information, hang up fast! Legitimate banks and government agencies don't make these kinds of calls.

2. Protect your credit cards and monitor your accounts.

Be sure to notify your credit card issuer if your card is lost or stolen, or if suspicious or inaccurate charges appear on your billing statement. Toll-free numbers for these companies appear on your cards and statements. Remember, you're not liable for unauthorized charges made ***after*** you report a problem.

Put your signature on a new credit card as soon as it arrives in the mail. That way, if a thief gets hold of your card, he or she cannot sign ***your*** name and use that writing sample to fool sales clerks and others into approving unauthorized purchases and withdrawals. Likewise, never write your PIN number on your card. Memorize it instead! Never lend your credit card to others. Keep your cards in a safe place. Take any old credit cards or cards you no longer intend to use, cut them in half and get rid of the pieces separately, so that the card number cannot be obtained by a fraud artist.

Michael Bianchetta, also with the FDIC's Division of Supervision in Washington, says that when charging purchases with your credit card at a store or other retail facility, "make sure your card is visible to you at all times. Some sophisticated fraudsters have the ability to copy credit card magnetic strips onto blank cards in a matter of minutes."

Bianchetta and others recommend this safe approach at the cash register: Keep the card in your hand and out of the view of others until the clerk is ready to "swipe" your card through the machine that electronically authorizes the purchase. If there's a traffic jam at the cash register, don't leave your card or your wallet on the counter while you wait, and don't let a clerk wander away with your card. If necessary, ask for your card back until it's your turn.

3. After using your credit card, always take the receipts and carbons, and destroy them as soon as you can.

When you use your credit card for a purchase or for a cash withdrawal from an automated teller machine, the pieces of paper you get back can be extremely valuable to a swindler. Any item that has your bank or credit card account number, Social Security number, address, phone number or certain other information could help a thief make a counterfeit card, dupe a bank employee into sending a new card, or order merchandise over the phone.

"Do not leave credit card receipts or statements on open desks or tables," cautions the FDIC's Seitz. "And when you no longer need your receipts and carbons to verify your purchase, destroy them, and mutilate the account number so it can't be read or duplicated."

4. If you receive an unsolicited offer in the mail for a pre-approved credit card you don't want, rip up the application immediately.

Don't just toss a blank application in the trash or leave it just anywhere. A thief can pick through your garbage or search your property for a pre-approved card application, apply for the card in your name, intercept the new card from the mail and then go on a shopping spree before you know anything has happened.

If you think there's a good chance you *will* apply for one of these cards, do so right away or store the application in a safe place until you get around to it.

5. Protect your incoming mail, which can supply a crook with the key ingredients to pull off a credit card fraud.

Chances are your mail carrier may have just delivered to you some credit card statements, bank statements, new credit cards or renewals of existing ones, pre-approved card applications, blank checks or other items of a financial or personal nature. To keep them from getting into the wrong hands, Postal Inspector Larry Fryer of the Postal Service in Washington, recommends the following:

"Empty your mailbox as soon as possible after mail is delivered," he says. "If your mailbox is isolated and unlocked, consider having a neighbor get your mail for you. Or, place a lock on the mailbox or rent a P.O. box. If you're going away for several days, have the Post Office hold your mail. And if you don't get your mail for a few days, report this to the Post Office. If you were expecting a bank statement or credit card in the mail and it doesn't arrive, also report that to your bank or credit card company. You'll want to make sure that someone hasn't submitted a false change-of-address for you or otherwise gotten to your mail."

Follow these basic tips and you, too, can take some of the credit for the fight against credit card fraud.

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Insured Or Not Insured? -- That Is The Question

Here are the Answers . . . .

A guide to what consumers most often *mistakenly* believe is protected by FDIC insurance

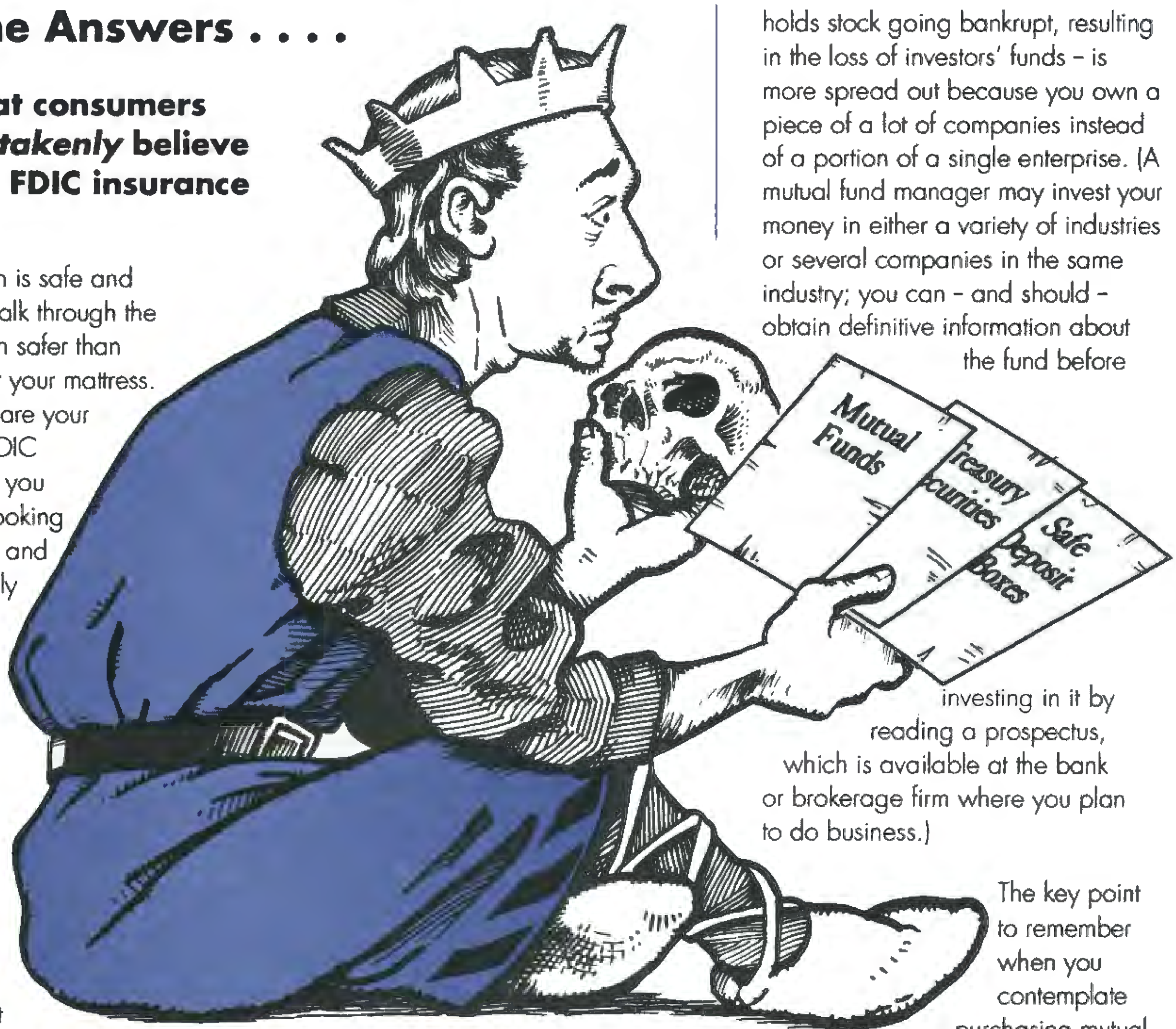

Illustration by: T. W. Ballard

So – you feel your cash is safe and protected when you walk through the door of the bank, much safer than when you kept it under your mattress. And you should. ***BUT***, are your funds ***all*** covered by FDIC insurance just because you walked into a secure-looking building with iron bars and guards? Not necessarily – it depends on which of the bank's products you decide to use.

Most of us are familiar with traditional types of bank accounts – checking, savings, trust, retirement, and certificates of deposit (CDs). Banks also may offer what is called a money market deposit account, which earns interest at a market rate set by the bank and usually limits the customer to a certain number of transactions within a stated time period. Except for certain trust accounts (where the assets of the account consist of securities rather than deposits), all of these types of accounts generally are insured by the FDIC up to the legal limit of $100,000 and sometimes even more for special kinds of accounts.

SO WHAT'S NOT INSURED?

Mutual Funds

Let's look first at the most popular item – and the one that too many people mistakenly believe ***IS*** insured – mutual funds. Investors favor mutual funds over many other investments lately because they usually have a higher rate of return than, say, CDs. And with a mutual fund, such as a stock fund, your risk – the risk of a particular company in which the fund holds stock going bankrupt, resulting in the loss of investors' funds – is more spread out because you own a piece of a lot of companies instead of a portion of a single enterprise. (A mutual fund manager may invest your money in either a variety of industries or several companies in the same industry; you can – and should – obtain definitive information about the fund before investing in it by reading a prospectus, which is available at the bank or brokerage firm where you plan to do business.)

The key point to remember when you contemplate purchasing mutual funds, stocks, bonds or other investment products, whether at a bank or elsewhere, is: Funds so invested are ***NOT*** deposits, and therefore are ***NOT*** insured by the FDIC – or any other agency of the federal government.

However, mutual funds are protected against fraud and theft through extensive regulations administered by the United States Securities and Exchange Commission and state securities regulators. And securities you own, including mutual funds, that are held for you by a broker or a bank's brokerage subsidiary, may be protected by the Securities Investor Protection Corporation (SIPC, pronounced sip-ick), a non-government entity funded by assessments paid by members. SIPC protects customer accounts against physical loss of their securities up to $500,000, including up to $100,000 in cash, if a member brokerage or bank brokerage subsidiary fails. Securities purchased by a bank for trust accounts or other purposes and held by a SIPC member brokerage or bank brokerage subsidiary also are protected by SIPC.

Because both SIPC and the FDIC provide a seal for members to display, and both specify cash limits that appear to be almost the same, consumers may confuse the two organizations. Just remember that only the FDIC protects the money you have in a deposit account. Neither the FDIC nor SIPC protects the money you invest in a nondeposit product like a mutual fund or other security. ***Another very important distinction*** between SIPC protection for investments and FDIC insurance on deposit accounts is: *NO* type of protection insures against loss in the value of an investment account (the value of your investments can go up – or *DOWN* – depending on the demand for them in the market), while federal deposit insurance protects the entire amount in your deposit account(s) up to the $100,000 limit.

Mounting concern over consumers' not being aware that investments in mutual funds and certain other products are not insured prompted the FDIC and the other financial institution regulators to issue a joint statement in February for banks that sell mutual funds and annuities (another investment product that is *NOT* FDIC-insured). The joint statement outlines steps banks and thrifts should take to minimize the possibility of customer confusion, including (1) obtaining a signed statement when a customer opens an investment account acknowledging that the customer has received and understands the disclosure, and (2) offering investment products for sale in a physical location that is separate from the area where retail deposits are taken. A copy of the joint statement is available from the FDIC's Office of Corporate Communications, Washington, DC 20429.

Treasury Securities

Among other items you might buy or keep at a bank that are *NOT* insured are Treasury securities, including Treasury bills (T-bills), notes and bonds. T-bills are more commonly purchased through a financial institution. Here's how T-bills work: When you buy them through your bank, you receive a receipt, which you should keep in a safe place along with your other valuable documents. The bank maintains a list of who has purchased T-bills. When the security matures, the bank will either deposit the proceeds to an account you have designated, send you a check or purchase new T-bills, according to your instructions.

Questions about T-bills often arise when a bank fails. Customers who purchase T-bills at banks that later fail become concerned because they think their actual Treasury securities were kept at the failed bank. In fact, in most cases banks purchase T-bills via book entry, meaning that there is an accounting entry maintained electronically on the records of the financial institution; no engraved certificates are issued. Treasury securities belong to the customer; the bank is merely acting as custodian.

Customers who hold Treasury securities purchased through a bank

FDIC-Insured	**NOT FDIC-Insured**
Checking Accounts maintained at a bank or savings association, including money market deposit accounts	*Investments in mutual funds (stock, bond or money market mutual funds), whether purchased from a bank, brokerage or dealer*
Savings Accounts (including passbook accounts)	*Annuities (available at some banks; often purchased from an insurance company)*
Certificates of Deposit	*Stocks, bonds, Treasury securities or other investment products, whether purchased through a bank or a broker/dealer*
Retirement accounts (consisting of cash on deposit at a bank or thrift)	

that later fails can request a document from the acquiring bank (or from the FDIC if there is no acquirer) showing proof of ownership and redeem the security at the nearest Federal Reserve Bank, or wait for the security to reach its maturity date and receive a check from the acquiring institution, which may automatically become the new custodian of the failed bank's T-bill customer list (or from the FDIC acting as receiver for the failed bank when there is no acquirer).

As noted, Treasury securities are not covered by federal deposit insurance. However, payments of interest and principal (including redemption proceeds) on Treasury securities that are deposited to an investor's deposit account at an insured depository institution ***ARE*** covered by FDIC insurance up to the $100,000 limit. And even though there is no federal insurance on Treasury securities, they are backed by the full faith and credit of the United States Government – the strongest guarantee you can get.

Safe Deposit Boxes

Another bank service that many customers are confused about with regard to insurance is safe deposit boxes. The contents of a safe deposit box are ***NOT*** insured by the FDIC, or by the bank where the box is located. (Make sure you read the contract you signed with the bank when you rented the safe deposit box in the event that some type of insurance is provided; some banks may make a very limited payment if the box or contents are damaged or destroyed, depending on the circumstances.) If you are concerned about the safety, or replacement, of items you have put in a safe deposit box you may wish to consider purchasing fire and theft insurance. Usually such insurance is part of a homeowner's or tenant's insurance policy for a residence and its contents. Consult your insurance agent for more information. If floods and earthquakes have been known to occur in your location, you may want to look into insurance against these natural disasters. Separate insurance for these perils may be available; again, consult your insurance agent.

Banks don't take chances, especially with the vault that contains their cash and securities or the safe deposit box area. Keep in mind that safe deposit boxes are usually a self-contained unit encased in a steel box that is virtually unbreachable. In at least one instance when a bank changed its location, the entire unit was lifted by a crane onto a flat-bed truck, and guards armed with shotguns accompanied the unit to its new location, remaining at the ready until the whole works were safely installed.

Of course, on the off chance that the building burns to the ground, or someone blows up the building, and your safe deposit box doesn't survive, you'll be pleased that you purchased insurance on the contents.

In the event of a bank failure, in most cases an acquiring institution would take over the failed bank's offices, including locations with safe deposit boxes. If the FDIC conducts a payoff because no acquirer can be found, boxholders would be sent instructions about removing the contents of their boxes. (See Page 14 for more information about safe deposit boxes at a bank that fails.)

WHAT ABOUT ROBBERIES AND OTHER THEFTS OF FUNDS FROM THE BANK?

Back in the nineteenth century, when Jesse James and other notorious miscreants were robbing banks, owners of the stolen funds were probably out of luck (insurance was not likely to be available). But today those funds may be covered by what's called a banker's blanket bond, which is a multi-purpose insurance policy a bank purchases to protect itself from fire, flood, earthquake, robbery, defalcation, embezzlement and other causes of disappearing funds. The banker's blanket bond ensures that customers' funds are protected under those circumstances.

In those rare instances where a bank employee may tamper with a customer's account, the bank's blanket bond insurance may cover the loss and the funds could be returned to the customer. However, if a third party somehow gains access to your account and transacts business that you wouldn't approve of, you must contact the bank and your local law enforcement authorities, who have jurisdiction over this type of wrongdoing. In any event, it's always a good idea to hold onto receipts for any deposits, withdrawals or other transactions, at least until they appear on your bank statement.

For additional information, contact the appropriate Regional Office of the FDIC's Office of Consumer Affairs as listed on Page 15.

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Hate Malls? Find Parking a Hassle? Try Shopping at the FDIC

Uncle Sam wants you... to buy real estate, furniture and other property acquired from failed banks

You've probably heard or read that the FDIC has sold office buildings, shopping malls, hotels and other major properties to the public. But did you also know the FDIC sells homes, small business locations, furniture and many other things within the price range of the average person?

John Pace is part of the FDIC team in Westborough, Mass., that sells homes and other properties acquired from failed banks in New England. (Photo by Michael E. Castagna/The Worcester Telegram & Gazette)

The FDIC is in the sales business because when an insured bank fails, the agency must dispose of the assets of the closed institution. This responsibility is similar to that of a trustee handling the bankruptcy of a failed business. The FDIC uses the income for two main purposes: to replenish the insurance fund that protects failed bank depositors, and to minimize the losses suffered by parties who are not protected by the insurance fund, such as uninsured depositors (those over the $100,000 insurance limit).

Thousands of assets are sold each year by the FDIC, with individual items valued at everywhere from under $100 to millions of dollars. While many of the assets are sold to healthy banks when the troubled institution closes, many other assets are not sold at that time and are later offered by the FDIC to the general public. These include:

■ **Residential property,** such as single-family homes, condominiums and apartment complexes. The FDIC also has a special "Affordable Housing Program" that assists low - and moderate - income households in buying certain single-family homes from the agency (see the box on Page 9 of this newsletter).

■ **Commercial property,** including office buildings, retail centers, hotels, resorts and golf courses.

■ **Undeveloped land** for potential use as commercial or residential sites.

■ **Furniture and equipment,** including computers, phone systems, and fixtures and furniture from bank offices.

■ **Specialty items,** such as crystal, china, artwork and antiques.

■ **Loans made by the failed bank,** which investors purchase as sources of income.

Sorry, our sales aren't to be found at your nearby mall or on a television shopping channel. But buying from the FDIC can be relatively easy. In general, the FDIC uses four basic approaches to sell assets to the public: (1) "sealed bid" sales, where buyers submit written offers by a specified date; (2) traditional "outcry" auctions, where purchasers openly bid against each other; (3) local real estate brokers and other private sales

◄ *The FDIC holds public auctions of property, such as this art collection from the closed Heritage Bank for Savings in Holyoke, Mass., as one way to recover the costs from bank failures. (Photo by Michelle Segall Brady/Springfield Union-News)*

▼ *A prospective bidder inspects adding machines for sale at the FDIC's 1993 auction of property from the failed Heritage Bank for Savings in Holyoke, Mass. (Photo by John Suchocki/ Springfield Union-News)*

representatives; and (4) sales staff from the FDIC's own Division of Depositor and Asset Services, who are located nationwide (see the main sales centers listed on Page 9).

The FDIC is just one of many government agencies that sell real estate and other assets to the public. Such diverse agencies as the Defense Department, the General Services Administration, the U.S. Postal Service, the Resolution Trust Corporation (RTC), the Tennessee Valley Authority and the Treasury Department sell various goods and properties to the public. These items include merchandise lost and unclaimed in the U.S. mail; used or surplus equipment and uniforms; and real estate, cars and jewelry that have been seized or forfeited.

To get information about upcoming auctions or other government sales, check the classified or business sections of national or local newspapers. If you have a particular agency in mind, get the phone number from the telephone book and contact the sales office closest to you. If you need more assistance, call the toll-free number for the Federal Information Center, which is listed in the U.S. Government pages in the phone books for many metropolitan areas. (Note: FDIC employees are prohibited from buying assets from the FDIC and the RTC.)

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Affordable Housing

The FDIC's Affordable Housing Program (AHP) was established by a 1991 law to provide financial assistance to low-and moderate-income households who wish to purchase homes the agency acquires from failed institutions. From the start of the program in March 1992, through November 1993, the FDIC has sold 1,432 properties at an average sales price of about $40,000 (85 percent of the appraised value).

The program relies on funding from Congress, which provided $5 million for fiscal year 1993 and $7 million for fiscal year 1994. Key features of the program are:

■ Financial assistance is limited to 10 percent of the purchase price and is intended for help with down payments, closing costs and other expenses.

■ Qualified purchasers include low- and moderate-income buyers, non-profit organizations and government agencies. Eligibility standards will vary according to geographical location.

■ Eligibility standards for properties also vary according to geographic area. And, by law, the properties must be below set ceilings in terms of appraised value. For example, the cap on the value of a single-family home or condominium that can be sold under the AHP is $101,250. For a four-family residential property, the limit is $160,000.

■ For 180 days after the FDIC acquires an eligible property, we will only sell it to qualified buyers. After 180 days, the property can be sold to anyone, but financial assistance would only go to qualified AHP participants.

■ AHP assistance comes with restrictions on the buyer. If a purchaser sells the home within one year, 75 percent of the profit must be given to the FDIC. Also, purchasers are required to live on the property for at least a year.

The FDIC primarily uses auctions, real estate brokers and FDIC personnel to sell AHP properties. For more information on properties for sale, eligibility requirements for purchasers, and other related matters, contact the AHP coordinator at an FDIC sales centers listed on the right. Or, check with a nearby office of your state housing agency or regional Federal Home Loan Bank, both of which are listed in telephone directories.

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FDIC Sales Centers

How can you find out more about what's available for sale from the FDIC? Contact a regional service center of the Division of Depositor and Asset Services:

Northeast Service Center
(Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands)
Newport Towers
525 Washington Boulevard
Jersey City, NJ 07310
(201) 653-0100

Southeast Service Center
(Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia)
285 Peachtree Center Avenue, NE
Marquis Tower II, Suite 300
Atlanta, GA 30303
(404) 880-3000

Midwest Service Center
(Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)
30 S. Wacker Drive, 32nd Floor
Chicago, IL 60606
(312) 207-0200

Southwest Service Center
(Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, Texas)
1910 Pacific Avenue, Suite 1700
Dallas, TX 75201
(214) 754-0098

Western Service Center
(Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming)
25 Ecker Street, Suite 1900
San Francisco, CA 94105
(415) 546-1810

(Almost) All You Need to Know About Those CRA Evaluations . . .

Bankers probably know what public records they need to make available under the main provisions of the Community Reinvestment Act (CRA): a public file that includes a description of the bank's market area, any CRA protest letters, and a copy of their CRA Performance Evaluation. Consumers, however, may not be familiar with the requirements of the Act and may not be aware that, beginning July 1, 1990, the evaluation, conducted by the bank's primary federal regulator, is a public document that anyone can look at to find out how the bank is performing its obligation to serve the credit needs of its community, including low- and moderate-income neighborhoods.

A CRA Performance Evaluation is a written report, based on an examination, that describes an institution's CRA performance taking into consideration 12 pre-established assessment factors. The evaluation also contains the institution's rating, which is based on the examiner's consideration of various CRA-related factors including the public file and the bank's performance relative to the assessment factors. There are four possible ratings: Outstanding (O), Satisfactory (S), Needs to Improve (N), and Substantial Noncompliance (SN). Banks that receive a less than Satisfactory rating (N or SN) are generally reexamined within 12 months with additional visitations and supervisory follow-up as necessary.

Each of the four federal bank and thrift regulators examines institutions under its supervision for compliance with the CRA. A copy of a bank or savings association's evaluation can be obtained at the institution. Alternatively, a copy is available from the regulators as follows:

■ **National banks** (usually identified by the inclusion of the word "national" or the initials "N.A." within the institution's official name):

Office of Corporate Communications
Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

■ **State-chartered banks**: Two agencies are involved here – the Federal Reserve Board supervises about 1,000 state-chartered banks that are members of the Federal Reserve System, and the Federal Deposit Insurance Corporation supervises about 6,700 state-chartered banks that are ***NOT*** members of the Federal Reserve system. (National banks ***MUST*** belong to the system; state-chartered banks may decide to be members or not.)

For state-chartered banks that are members of the Federal Reserve System, write to:

Board of Governors of the
Federal Reserve System
FOIA Office
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

For state-chartered banks that are NOT members of the Federal Reserve System, write to:

FDIC Reading Room
Room 7118 Main Building
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Consumers generally would have no way of knowing which of the two agencies supervises a state-chartered bank, unless they ask at the institution itself. A phone call requesting the name of the institution's primary supervisor should produce the

Regulators Seek Comments on CRA Proposal

President Clinton announced in July 1993 a CRA reform initiative to (1) increase lending in underserved communities and (2) streamline, clarify and make the CRA regulatory process more objective. As a result, the four bank and thrift regulators proposed to replace 12 subjective factors now used to assess an institution's CRA performance with three "tests" using objective, performance-based standards in these areas: a lending test, a service test and an investment test. Under one part of the proposal, in lieu of the three tests, an institution would be permitted to submit a strategic plan that includes measurable goals for meeting its CRA obligations.

The agencies gathered the views of more than 250 witnesses at seven hearings held around the country during August and September of 1993 before issuing the proposed changes for comment. Details about the proposed changes are available from any of the agencies at the addresses provided on Page 15.

information, but if for some reason the answer is not forthcoming, write to the FDIC at the address on Page 10 and we will handle your request or forward it to the Federal Reserve Board if appropriate. (The FDIC maintains a printout of all insured institutions that indicates the specific type of institution and thus the primary supervisor.)

■ **Savings Associations (S&Ls)**: The Office of Thrift Supervision (OTS), which supervises savings associations (S&Ls), handles requests for evaluations from its regional offices. For example, OTS' Atlanta office handles savings associations, including their CRA evaluations, located in Alabama, the District of Columbia, Georgia, Maryland, North Carolina, South Carolina, Virginia, Florida, Puerto Rico and the Virgin Islands.

For a list of OTS regional offices, write to:

Office of Consumer Affairs
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

For more information about the Community Reinvestment Act, the Federal Financial Institutions Examination Council has published a comprehensive booklet called "A Citizen's Guide to the CRA," which describes the requirements of the Act, CRA and the applications process, and the role citizens can play. The booklet also contains maps and addresses of the supervisory agencies' district and regional offices. A copy of the booklet is available from the FDIC's Reading Room at the address given earlier in this article.

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News Briefs

Access to Appraisals

Under new rules from the Federal Reserve Board, consumers soon will find it easier to obtain the property appraisal used by a lender in approving or denying a mortgage or business loan. The rules carry out a 1991 change in the Equal Credit Opportunity Act that gives loan applicants the right to receive the appraisal report as one way to prevent illegal discrimination against minorities or other consumers. The idea is that if a lender rejects a loan because of an appraisal that undervalues the properties in a neighborhood, the applicant has more documentation to challenge the loan denial or even file a discrimination claim.

An appraisal report also could serve other purposes for a consumer, such as providing another opinion on the value of the property, which might give you more leverage in negotiating the final sale.

The new rules require lenders to either automatically provide appraisal reports to all applicants or notify all applicants of their right to receive the report. Lenders are not required to begin complying until June 6, 1994. For more information, write to the Federal Reserve at the address listed on Page 15 of this newsletter.

Mutual Institutions

The FDIC and other federal regulators are reviewing and strengthening the consumer safeguards when savings and loans or savings banks convert from mutual institutions to stockholder - owned. Most of these conversions have occurred or are pending in the Northeast but also in states such as Wisconsin, Illinois and North Carolina.

A mutual institution has no shareholders. It often is described as being "owned" by the depositors because, in most cases, they have certain rights and votes usually associated with ownership. Among the regulators' concerns are that, in some cases, the converting institution's officers, directors and other "insiders" may deliberately set the initial stock offering price too low, or obtain more than a fair share of the stock, or receive bonuses or other compensation considered excessive. These insiders could reap large "windfall" gains at the expense of depositors or others who do not buy stock or were not offered the favorable terms given to the insiders.

The FDIC's response included an "emergency" regulation adopted February 8 that will result in closer scrutiny of conversion applications and, if necessary, efforts to prevent unfair or unsound conversions. If you have information about alleged abuses or questions about what the regulators are doing to protect the public, write to the agencies listed on Page 15.

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Bank Failures in 1993 Hit 12-Year Low; But if Yours Fails, Do You Know What to Expect?

By the end of 1993, 41 failures were on the FDIC's books for the year, the lowest annual number since 1981. But at least one bank has failed each year but one since the FDIC began official operations in 1934, so some customers somewhere may experience a bank failure in 1994. What if ***your*** bank fails? Do you know what to expect? Following are some of the most frequently asked questions and answers about bank failures.

How do I know if my bank has failed?

The FDIC is usually named receiver (a role comparable to that of a trustee in a corporate bankruptcy) of a failed institution when it is closed by its chartering authority - the Comptroller of the Currency for national banks, the state for state-chartered banks. Both the chartering authority and the FDIC issue press releases that are widely distributed as soon as the bank is closed so that local radio and TV stations will make the appropriate announcements. Newspapers would carry the story the same or next day.

If you miss the media announcements and visit your bank after it has been closed, you will find signs posted on the door informing you that the institution has been closed. In most cases you will be informed that you now will be doing business with a new institution that has acquired the failed bank. You may see temporary signs on your bank building with the institution's new name. And, the acquiring institution often advertises in the local media.

In those cases where an acquirer for the failed institution cannot be found, the FDIC pays off depositors (the transaction is called a payoff) and usually will mail you a check for the amount of your insured funds. In some instances, you will be asked to come to the bank's offices to receive your check, typically on the next business day. If there is an outstanding loan or questions about your account, you will be asked to come into the bank to resolve the matter.

[Note: If a savings association (savings and loan) fails, it would be closed by the Office of Thrift Supervision (formerly the Federal Home Loan Bank Board) and the Resolution Trust Corporation (RTC) would be responsible for selling the failed institution to a healthy one. The institution would be placed in conservatorship and managed by the RTC while it attempts to find a buyer. In some instances, several acquirers may be involved.]

When can I get to my money?

If another institution takes over your failed bank, you should experience no disruption in service. (Occasionally automated teller machines may be out of service for a short period.) Offices of the "new" bank generally open for business on the next business day.

In a payoff, the FDIC usually begins mailing checks to customers for their insured funds a few days after the failed bank is closed. It's always important to notify your bank promptly of any change in address so you will receive timely information about ***ANY*** developments affecting your accounts.

What happens to my accounts at the failed bank? Do they simply become accounts at the acquiring institution?

Yes, the assuming bank is now your bank. However, you should visit the acquiring bank soon after your bank fails to re-establish your banking relationships. This process, which is called ***ratifying*** your accounts, can

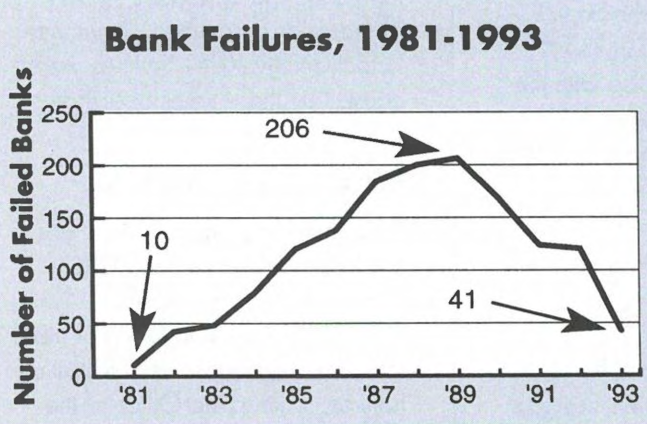
FDIC staff at bank closings explain how the agency protects depositors. Here David Barr from the Office of Corporate Communications in Washington meets with customers of a failed bank in Missouri. (Photo by Mary E. Schulte/The Kansas City Star) also be accomplished simply by performing a transaction such as a deposit or withdrawal, including writing a check. As a customer of a failed bank acquired by another institution, you would receive a notice concerning this requirement. It's especially important to visit the acquiring institution if you hold long-term certificates of deposit (CDs) because any account not ratified within 18 months of the acquisition of the failed bank is considered dormant and funds could revert to the state, depending on state law.

I have direct deposit for my Social Security checks. What happens if my bank fails?

If the failed bank is acquired by another institution, ***ALL*** direct deposits, including Social Security, will continue at the new bank automatically. If the FDIC cannot find an acquirer for the failed bank and conducts a payoff, it will ask a nearby institution to take over the direct deposit function temporarily and make Social Security and government annuity funds available to the failed bank's customers. In a payoff, customers who had ***ANY*** type of direct deposit, including Social Security and items such as paychecks, or automatic withdrawal, such as direct payment to utilities, will need to establish new arrangements when they open new accounts elsewhere. When a payoff occurs, notices about how direct deposits such as Social Security checks are being handled are usually displayed at the failed bank's offices.

Can I use checks and deposit slips from the failed bank at the new bank?

Yes. The acquiring bank will accept the checks and deposit slips of the failed bank. You will receive information about new checks and deposit slips from the acquiring bank. If your bank fails and closes and there is no acquiring institution, you should destroy checks and deposit slips with the failed bank's imprint.



FDIC-insured bank failures are at their lowest level in 12 years, but that doesn't mean you should be careless about whether your deposits are fully protected under the rules.

What if I have written checks on an account at a failed bank and the checks haven't cleared when the bank is closed?

As stated in the answer above, an acquiring bank will honor checks written on accounts in the failed bank. However, if the FDIC cannot find an acquirer and pays off insured depositors, checks outstanding at the time of failure would be returned and you would need to replace them with checks written on a new account that you establish elsewhere following the failure. The people or businesses to whom you have sent checks that are returned because your bank failed usually understand the situation and do not penalize you.

Is it true that an acquiring bank can lower the interest rate I was receiving on my CDs at the bank that failed?

Yes. In most cases, an acquiring bank is not required to honor the contract you made with the failed bank when you purchased the CDs. But you can withdraw your funds without penalties for 14 days following the closing of the failed bank.

What happens to loans I had at the failed bank?

You are still liable for any payments due on loans made to you by the failed bank, such as automobile, second trust, and mortgage loans. The same is true for credit card balances. Continue making payments just as you did before the bank failed until instructed in writing by the acquiring bank (or the FDIC if there was no acquirer) to do otherwise. Mortgage loans are often sold to other financial institutions or mortgage servicing companies, so you may receive a notice to that effect from the new institution or company. The terms of your mortgage typically are ***NOT*** affected by this change.

What happens to my line of credit at a bank that fails?

The acquirer of a failed bank may choose to continue permitting withdrawals against an unused portion of a line of credit established with a bank that subsequently failed, or it may not. That is strictly a business decision of the acquiring institution, which in most cases is under no obligation to honor a line of credit agreement made with a failed bank. The acquiring bank may buy your revolving credit or other type of loan agreement at the time it purchases the failed bank, depending on your payment history and other factors. In any event, payments on the amount you have drawn should be made as before until other instructions are received. You should contact the new bank regarding the status of your line of credit.

If there is no acquirer of your failed bank and the FDIC pays off insured depositors, lines of credit will be discontinued (but payments on any outstanding balances still must be made). The FDIC does not serve in the place of the failed bank by maintaining lines of credit established with a bank that later fails.

Customers of failed banks for which the FDIC cannot find an acquirer should establish new banking relationships with other financial institutions in the area. Those customers who had lines of credit at the failed bank can apply to establish the same type of arrangement at their new financial institution.

How do I get access to my safe deposit box at a failed bank?

If an acquiring bank takes over your bank, including an office where you have a safe deposit box, you should be able to conduct business as usual. In a payoff, boxes are made available for several weeks after the bank closes so that boxholders can remove the contents. Boxholders may then obtain a box at another institution if they wish. Information for boxholders would be displayed at any closed office containing safe deposit boxes, and media coverage of the failed bank also may include information for safe deposit boxholders.

If the bank office is closed, what are all those people doing in the building?

Those are probably FDIC staff from various locations who have been called in to prepare the bank's records for the transfer of accounts to an acquirer or for a payoff to depositors. Other FDIC staff go through the bank's records to determine which assets (loans, especially) can be sold, what legal matters are outstanding (all are inherited by the FDIC), whether any fraud was involved in the bank's demise, and other issues. Other staff inventory the contents of the bank's offices, such as furniture, artwork, computers, and so on – also with the goal of determining exactly what's there before selling it. Employees of the failed bank and the acquiring bank, if there is one, are also at work with the FDIC's employees.

Why does a bank fail?

A bank that fails usually has had the same problems as any other business that fails – its debts were greater than its assets. Corporations with liabilities greater than assets, and which have exhausted all possibilities for additional funds, often close their doors and file for bankruptcy (a court proceeding). Banks in a similar financial condition (not meeting capital requirements set by regulators) may also have no other realistic remedies, such as a cash infusion or an acquisition by another institution, and are generally judged to be insolvent and are closed by their chartering authority.

The unusually large number of bank failures in the last decade or so was mostly due to severe declines in certain industries or sectors of the economy, beginning with agricultural problems in the Midwest, then oil price declines in the Southwest, and finally real estate problems in the Northeast, California and elsewhere.

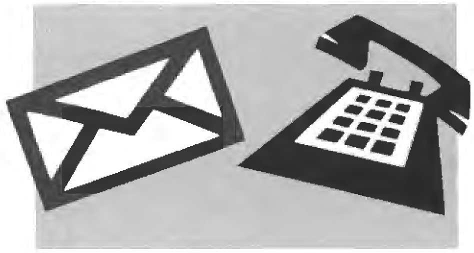
Some of the more than 1,400 banks and 700 savings institutions that failed between 1982 and 1992 were victims of fraud and other criminal activities. Some of their names, and the principals involved, are well-known now and may give the impression that stealing depositors' funds to create the like of leather-walled offices with gold fixtures was a common occurrence. In fact, relatively few failures were caused by these types of activities.

For more information:

If you have specific questions about bank failures, write to the FDIC's Office of Consumer Affairs, Washington, DC 20429. For more information about savings institution failures, write to the Office of the Ombudsman, Resolution Trust Corporation, 801 Seventeenth Street, N. W., Room 315, Washington, DC 20434.

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, 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 at the appropriate regional office of the Division of Supervision, or the FDIC's Office of Consumer Affairs, 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.

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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.

Office of Consumer Affairs
550 17th Street, N.W.,
Washington, DC 20429
Phone 800-934-3342 or
202-898-3773

Atlanta Region (Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia):
245 Peachtree Center Avenue, NE,
Atlanta, GA 30303

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

Chicago Region (Illinois, Indiana, Michigan, Ohio, Wisconsin):
30 S. Wacker Drive, Suite 3100,
Chicago, IL 60606

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

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

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

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

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

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.

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., S.W., Washington, DC 20219
Phone 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, N.W.,
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 world "Federal" or the initials "FSB" or "FA" in their names.)

Consumer Affairs Office,
1700 G Street, N.W.,
Washington, DC 20552
Phone 800-842-6929 or
202-906-6237

Coming in the Next Issue...

- ***How to get information about the health of your bank...***
- ***The Mailbag: Answers to your questions about deposit insurance and other consumer protections...***

Read the next issue of FDIC Consumer News for news and information on these and other topics of interest to consumers from the Federal Deposit Insurance Corporation.

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:

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Office of Corporate Communications
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Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

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Washington, DC 20429-9990

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