FDIC Consumer News

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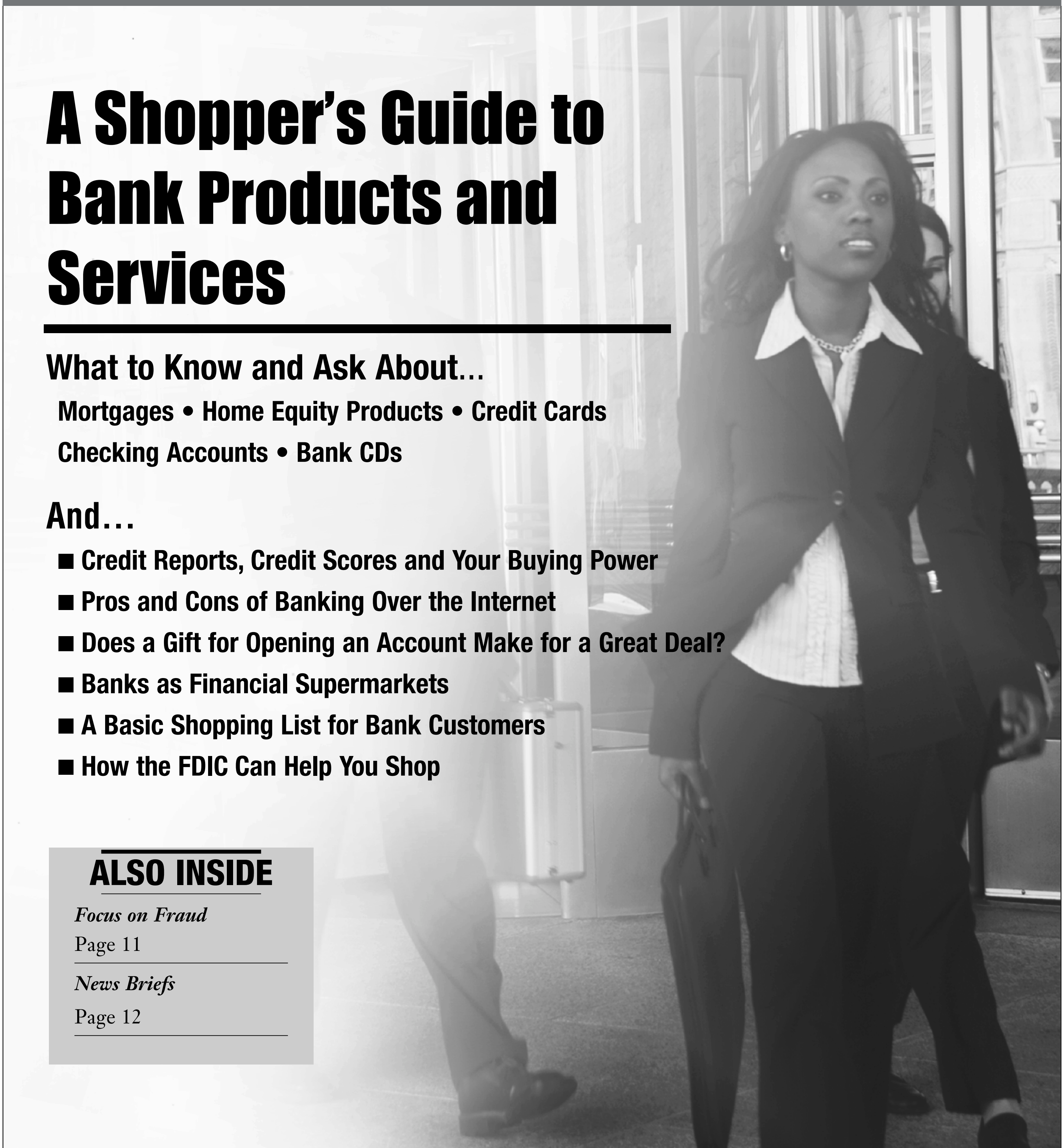

A Shopper's Guide to Bank Products and Services

What to Know and Ask About...

Mortgages • Home Equity Products • Credit Cards
Checking Accounts • Bank CDs

And…

- Credit Reports, Credit Scores and Your Buying Power
- Pros and Cons of Banking Over the Internet
- Does a Gift for Opening an Account Make for a Great Deal?
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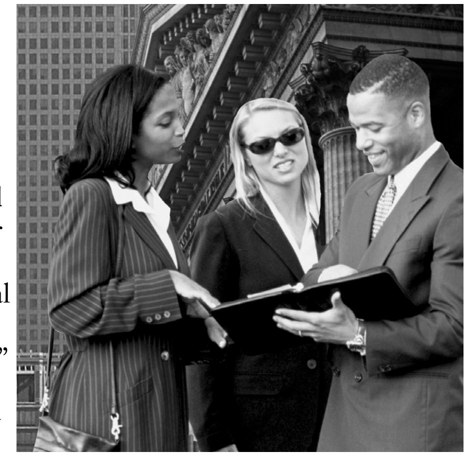
FEDERAL DEPOSIT INSURANCE CORPORATION

Mortgages: *More Choices, New Risks for Borrowers*



Not that long ago your mortgage choices were relatively simple. Did you want a fixed-rate loan or an adjustable-rate mortgage (ARM)? Would you prefer a 15- or 30-year repayment period? Now, many new loan products are being widely offered that could benefit some people but be huge mistakes for others.

If you're likely to have increasing income or if you are likely to move in a few years, an adjustable-rate mortgage may be appropriate because you should be able to afford the payments if interest rates rise. But if your income is steady and you plan to stay in the house for the foreseeable future, you'll probably benefit from the security of a fixed-rate mortgage. A 30-year, fixed-rate mortgage will have lower monthly payments than a 15-year mortgage but will cost you more in the long-term. You need to decide which repayment period best suits your needs.

Once you're ready to shop for a loan, read more advice in the brochure *Looking for the Best Mortgage: Shop, Compare, Negotiate*, at www.fdic.gov/consumers/looking/index.html.

Among the key tips in the brochure: Contact several lenders to find a selection of loan products and terms that best suit your needs. Don't just ask about the interest rate. Also inquire about loan origination fees (for processing the loan), insurance and other costs, which can be substantial. If you apply for a loan, the Real Estate Settlement Procedures Act entitles you to a "good faith estimate" of closing costs at the time you apply or within three days.

What about those new mortgage products we said may carry special risks for some borrowers?

• **Interest-only mortgages:** Instead of paying back part of the principal (the loan amount) each month plus interest charges — the most common way mortgages are repaid — these loans require the borrower to *pay only the interest for the first five or 10 years.* After that, the borrower must either pay the loan off entirely or start paying both principal and interest monthly for the remaining period, perhaps 20 to 25 years.

Interest-only loans have been growing in popularity, especially in the "hot" housing markets, because they enable consumers to "buy up" by paying only the interest portion of the loan in the early years. But the potential risks are significant, especially if the interest rate on the loan goes up and the required payments of both principal and interest are well beyond the consumer's ability to pay each month.

"Remember, after the interest-only period ends, the monthly payment will be substantially higher than if you had used a traditional 30-year mortgage loan because the principal is being repaid over only 20 or 25 years," said Donna Gambrell, a Deputy Director of the FDIC's Division of Supervision and Consumer Protection.

Also important: What if the house hasn't appreciated in value, or even worse, has lost value when you decide to sell? "You may owe more on the loan than the house is worth, and that means you may be unable to repay the loan from the proceeds of your sale," said Gambrell. "In a worst-case scenario, if you can't sell the house and can't afford the loan payments, you could lose your home and still owe the lender a portion of the loan."

In general, an interest-only loan may be appropriate for someone new to a profession and whose initial income is somewhat low but is likely to rise quickly in the future. The loans generally are not suitable for a home owner who plans to live in the house beyond the interest-only period (more than five years) and doesn't expect increases in income to rise rapidly enough to cover the higher monthly payments.

• **Option ARMs:** Also called "flex" ARMs, these loans let the borrower decide how much to pay from one month to the next based on a few choices. The options range from making a full monthly payment (what you'd normally pay in principal and interest with a traditional mortgage) to a "minimum" payment that doesn't cover the interest due but the shortfall is added to your loan balance. That means if you're strapped for cash you can send in a low payment and not be in default on your loan.

Option ARMs may be beneficial for people who earn a good annual salary but their monthly income fluctuates — perhaps they rely heavily on commission checks or sizeable year-end bonuses. But if they defer too much interest their total costs can go way up because they'll be paying interest on a higher loan amount, and will likely be doing that for many years. "It's similar to only paying the minimum due on your credit card," explained Gambrell. "It may seem like you're getting a big break from the lender but really you're paying a heavy long-term cost for some short-term flexibility."

As with interest-only loans, if you end up deferring a substantial amount you may owe more on the loan than the value of your home. And if you sell during a time of declining values, the sales price may not cover the loan balance.

• **Mortgages with no downpayment:** By combining two or even three mortgages — for example, a traditional mortgage for 80 percent of the house value with two home equity loans (see next page) for the remainder of the value — you may be able to purchase a home with no money down.

For some people this could be appropriate — perhaps you're expecting the house to increase in value because you plan to renovate it or you don't have any savings built up but you expect your income to increase substantially. But borrowing 100 percent of the value of the home carries risks similar to those for option ARMs, such as what happens if you can't afford the monthly payments and home values drop.

"By mortgaging the entire value of your home, the risk of losing your home increases substantially, and there's no margin for error," said Mira Marshall, a Senior Policy Analyst on consumer protection issues at the FDIC.

• **Mortgages with little or no documentation:** These loans don't involve the usual amount of paperwork required to document the applicant's income, assets, debts and credit history. Applying for one of these loans may save you some time. You also may find these loans attractive if you have an irregular employment history or you are self-employed. The trade-off is that you'll probably be required to make a larger downpayment and/or pay a higher interest rate.

"If you can document your financial situation, it should be worth your while to provide it to the lender," added Marshall. "As with the other types of non-traditional loan products, it's important not to let the short-term ease of the transaction distract you from the long-term additional cost."

• **A 40-year, fixed-rate mortgage:** Extending the repayment term results in a smaller monthly payment and another way to put a more expensive home within reach, but having a much smaller amount going to pay off your loan each month can dramatically increase the total interest costs. However, the security of a fixed rate may make that long-term cost worthwhile, depending on your personal situation.

We have provided only an introduction to shopping for a mortgage. Be sure you consult with your tax and financial advisors, and that you research as much as you can before applying for a loan.

Questions to Ask Before Signing a Mortgage Loan

What will my monthly payment be? How much and how often could the payment go up? Make sure you can meet the loan payments now and in the future, especially if you're considering an adjustable-rate mortgage (ARM). "ARMs can be attractive because you're paying less money initially, but understand that those payments are likely to go up," said Cynthia Angell, a Senior Financial Economist at the FDIC. "If interest rates rise and you've got an ARM, you've got to be sure you could handle the higher monthly payments." It's also important to understand the index your interest rate would be tied to and to get a sense of its volatility.

Is there a "balloon" payment? If so, when is it due, and how much will I owe? A balloon payment is a large, lump-sum payment due at the end of the loan term. A balloon feature may keep monthly payments low in the early years, but the loan must be refinanced or paid off in full at the end of the loan term. For some borrowers, a balloon loan can be very appropriate. For others, the consequences can be costly, perhaps even resulting in the loss of their home if they can't repay or refinance the amount due.

What is the Annual Percentage Rate (APR) for this loan? Is this the lowest rate you can offer? The APR is the cost of the loan expressed as a yearly rate, and it includes the interest rate, "points" (each point equals one percent of the loan amount), broker fees and certain other charges. Comparison shop among several lenders, then negotiate the best possible terms.

Are any points, fees or other charges being added to the loan balance and increasing my payments? If so, how much extra will I pay each month and over the life of the loan? Investigate whether it makes sense for you to pay these charges up front or roll them into the loan.

Does the loan amount include fees for credit protection that would cover the loan payment if I die, become ill or unemployed? If so, why, and how much will it cost me in up-front, monthly and total fees? First ask yourself if you really need this type of coverage. You may not need the extra protection, or you may get a better deal from your insurance agent or other sources. If the lender requires this kind of coverage, it must tell you and include the cost in its calculation of the loan's APR. Otherwise, the coverage is entirely voluntary.

Is there a prepayment penalty if I pay off the loan early by refinancing or selling my house? Some lenders offer loans with prepayment penalties at lower interest rates than the same loans without prepayment penalties. Depending on your circumstances —for example, if you do not expect to move during the period subject to a prepayment penalty — a loan with a prepayment penalty can be a good alternative. However, if market interest rates drop, you may miss out on a chance to refinance if the prepayment penalty on your loan is too high.

Home Equity Products: *How to Borrow Safely*

As home values rise in many markets, Americans are increasingly tapping the equity in their houses to borrow money using either a home equity loan or a line of credit. The equity refers to the difference between what you owe on a house and its current market value. For instance, if you owe $100,000 on your mortgage but your home is worth $150,000, your equity is $50,000.

Why are home equity products so attractive? They offer homeowners great flexibility to finance major expenses, including home improvements and college tuition. They usually have a lower interest rate than credit cards, and the interest often is tax deductible (check with your tax advisor). But these loans also come with risks. The most important thing to remember is that your home is collateral for the loan. "That means if you run into repayment difficulties, you could lose your home," cautioned Richard Brown, the FDIC's Chief Economist.

So, before you put your home at risk, you should learn more about how these loans work and what can go wrong if they are not used carefully.

The "traditional" home equity loan (HEL) is a one-time loan for a lump sum, and typically at a fixed interest rate. The loan is repaid in equal monthly payments over a set period of time.

A home equity line of credit (HELOC) is very different because it works like a credit card. You receive a line of credit from which you can draw money. As you repay the principal, your available credit goes up again, just like a credit card. Typically, the interest rate on a line of credit is variable, meaning that it is tied to an index and will change with movements in interest rates.

With both types of home equity products not only could you lose your home if you can't repay the debt, but you also are at risk if there is a drop in the value of your home. Although the housing market has done extremely well in recent years, there is always a chance that real estate values will go down.

"Home equity borrowers need to be aware of the trend of home prices in their area," said Barbara Ryan, an Associate Director in the FDIC's research division. "If prices go down, you could owe more on your home than it is currently worth, which means you cannot sell the house without taking a loss."

HELOCs often come with extra-low interest rates for an introductory period, such as six months, but these are variable rates that could go up during the life of the loan. When deciding whether a line of credit is right for you, ask yourself if you can afford the increased monthly payments after the introductory period ends or when interest rates rise. You'll also have to decide if you are comfortable with a fluctuating monthly mortgage payment or whether a fixed interest rate and stable payments are better for you.

Also remember that you are drawing out the money you have invested in your home so you should think carefully about what you do with that money. "It's generally best to invest in another asset of long-term value, such as a home renovation or college tuition, instead of paying for a car or a vacation," added Brown. "The flexibility these loans give you can be dangerous because if you're not disciplined about how you use the funds, you could end up paying a lot of money over a long period of time for something you no longer own or that didn't add any value to your existing assets."

Fortunately, you have specific rights if you're using your home as security for a home equity loan or line of credit. Federal law gives you three business days after signing the loan papers to cancel the deal — for any reason —without penalty. You must cancel in writing. The lender also must return any fees or finance charges you had paid. This right doesn't apply if you are refinancing or consolidating existing loans without borrowing additional money.

For more information, see the brochure *Putting Your Home on the Loan Line is a Risky Business*, which is available on the FDIC Web site at www.fdic.gov/consumers/consumer/predatorylending.

Questions to Ask About a Home Equity Product

Do I really need this loan? Consider all your options before you use your home as collateral for a loan.

Can I afford the loan payments? Find out how much the payments will be and decide if you can afford them. Remember, if you decide to get a home loan and you can't make the payments, you could lose your home.

What if interest rates increase? Find out what the interest rate will be on your loan. If it is a variable rate, find out when the rate may change and by how much. Ask yourself if you can afford increased monthly payments when interest rates rise. Beware of loan terms and conditions that may mean higher costs for you.

What will I use the loan to pay for? If you decide to tap into your home's equity, you should try to invest in assets with long-term value, such as a home renovation project. Using a long-term loan to finance a short-term asset, such as a car that will have to be replaced in five or six years, means you could still be paying for the item even though you no longer own it.

Note: Many of the questions about mortgage loans on Page 3 also apply to home equity products.

Credit Cards: *Understand Your Needs...and the Fine Print*

Thinking about a new credit card? What should you consider in selecting one?

First, think about how you plan to use the card. Ask yourself when you expect to pay for all that you charge — by the due date each month or over several months? This is a crucial question. Many Americans carry a balance on their credit card and pay interest on it each month. Yet many of these same people chose their card because it has no annual fee, without considering whether they could get a better interest rate on a different card. In the long run, they could pay far more in interest than what they save by not paying an annual fee.

Other people sign up for a card because of cash rebates, bonus points toward airline travel, free T-shirts and other giveaways — but they, too, could end up paying more in fees or interest than the value of their reward.

Generally speaking, if you expect to pay your credit card bill in full each month, your best bet is a card with no annual fee and with the kinds of rebates or rewards that fit your lifestyle. If you don't expect to pay off your card balance in full most months, go for a card with a low interest rate and the right mix of rebates or rewards to justify any fees.

We also strongly recommend that, before you sign up for a card, you carefully review the terms and conditions, including the potential fees or penalties, all of which must be disclosed to you before you incur any charges on the account. These terms, by law, must be easy to spot. For example, the most important terms must be in a specially highlighted box or near the box. Don't overlook them.

"Be realistic about how you plan to use the credit card, and then evaluate whether the likely restrictions and costs are ones you could live with," said Mira Marshall, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection.

Joni Creamean, an FDIC Senior Consumer Affairs Specialist, agreed. "It's important to understand what you are committing to *before* applying for and using the credit card. Once you use the card, you have established a binding contract with the lender and you are obligated to abide by the terms disclosed to you."

Among the key terms and conditions to know: the interest rate and when and how it could change (low introductory "teaser" rates typically only last for six months to a year); the "grace period" (the number of days before the card company starts charging you interest on purchases); and the interest calculation method, which is crucial for consumers who routinely carry a balance on their credit card (see more in the box below).

Another term to watch for is a "default rate," which is a higher interest rate that you could be charged if you pay late on this or another credit card, or for other actions that the credit card issuer considers too risky.

FDIC staffers cited various examples of consumers running into problems with new credit cards simply because they didn't take the time to read key details. One consumer whose new credit card came with a zero-percent initial interest rate decided

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Questions to Ask Before Getting a Credit Card

How do I expect to pay my credit card bill? If you plan to pay your bill in full at the end of the month, look for a card with no annual fee or a low annual fee and a generous grace period (see below). If you don't plan to pay in full every month, the important considerations are the interest rate and how it may change, and the grace period.

What is the Annual Percentage Rate (APR) for the different ways I may use the credit card? What can cause my interest rate to increase? Ask whether the advertised APR is good for the foreseeable future or if it's a short-term "teaser" rate that is likely to go up in just a few months. Note that many credit cards have different interest rates for different balances — such as new purchases vs. balance transfers from an old card. Find out if late payments on this or other credit cards can cause your APR to go up. Ask if the card has a variable rate, how the rate is determined and how often it can change.

Is there a grace period? If so, how long is it? The grace period describes the number of days you have to pay the balance on your card before incurring a finance charge (interest or fees). If you plan to avoid interest charges by paying your balance in full most months, make sure your card has that grace period. If the card has no grace period, interest starts accruing from the date of purchase.

What are the fees? Is there an annual fee? What about late payments, returned checks, cash advances, balance transfers or charges when you exceed your credit limit? When is a payment considered "late" (and thus subject to a late-payment fee)?

What are the potential rewards or benefits I'd get with this card? Examples may include cash back on purchases, bonus points toward airline travel or the purchase of a car, extended warranties on purchases, and insurance for car rentals and other travel-related coverage. Be aware of the rules and restrictions, including limits on how much you can earn or deadlines for taking advantage of a reward, because these may reduce the value of these "freebies." Also, compare the likely value of the bonuses with the potential costs of the card.

Checking Accounts: *Finding the Right Balance*

Most banks offer several types of checking accounts whose features and costs can vary widely. How can you know which bank and which checking account may be best for you?

Start by determining how you plan to use your checking account. Your goal should be to find the right mix of features at the right costs, preferably without a monthly maintenance fee.

Will you be writing a lot of checks each month? If so, you'll want an account that doesn't impose fees based on the number of checks you write.

Are you interested in paying bills over the Internet instead of writing and mailing checks? Make sure online banking services are provided and ask about the costs.

Do you expect to make a lot of automated teller machine (ATM) withdrawals? Consider a bank with conveniently located ATMs and free withdrawals from its own machines. (Depending on the bank and the account, your bank may charge a fee for using another bank's ATM — in addition to the fee the other institution may impose.)

Review the potential costs for other services you expect to use and compare one bank's accounts with a few others. That's easy to do because the federal Truth in Savings Act requires banks to provide a written disclosure of their fees before an account is opened.

Also remember that just because an account is advertised as "free" or "no cost" it doesn't mean you'll never run up a charge. Under Federal Reserve Board rules, an institution can't advertise a "free" checking account if you could be charged a maintenance or activity fee (such as for going below a required minimum balance). But your bank can offer a free account and still impose charges for certain services, such as check printing, ATM use or overdrafts.

Howard Herman, an FDIC Consumer Affairs Specialist, added that while it's important to consider an account's costs and limitations those may not always be the deciding factors. "For some people, the convenience of doing all their banking in one place may be enough to outweigh the costs or minimum balance requirements," he said. "These are personal decisions that only you can make."

Of course, you're probably not planning to overdraw your checking account, but mistakes do happen. For example, some people accidentally overdraw their checking account when using a debit card for a purchase or making an ATM withdrawal for more than the balance in their account. For each bounced check there may be a bank fee of about $25 to $35 plus charges from merchants. A bounced check that is not repaid in a timely fashion also may become part of your record and you may have difficulties opening a new checking account or getting a merchant to accept your checks.

You should consider the costs of overdrafts and your options for avoiding problems. An interagency brochure, entitled *Protecting Yourself from Overdraft and Bounced-Check Fees*, provides helpful guidance (www.federalreserve.gov/pubs/bounce/default.htm).

To learn more about what to look for when choosing and using a checking account, see *Checks and Balances: New Rules, New Strategies for Bank Customers in the 21st Century*, a special report in the Summer 2004 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnsum04/index.html.

Questions to Ask About a Checking Account

What are the fees? The Truth in Savings Act requires institutions to disclose fees before you open a deposit account. If there is a monthly fee, ask about ways to reduce or eliminate it, such as by having your paycheck or Social Security check directly deposited to your account or by maintaining a minimum balance. Also ask about other fees, such as for using ATMs or overdrawing your account. As you shop around, consider only the fees you expect to incur and don't worry about the rest.

Is there a minimum balance requirement? What is the penalty for going below the minimum? You may be able to meet the requirement or reduce the penalty if you have other accounts at the same bank or if you use direct deposit.

Will the account earn interest? If so, how much and what factors can raise or reduce the interest rate? Some checking accounts pay interest, others don't. "Even if the account pays an attractive interest rate you should consider the fees and other factors so you can determine whether the overall deal is best for you," said Howard Herman, an FDIC Consumer Affairs Specialist.

If I overdraw my account, what are my options for avoiding fees for insufficient funds? Example: Banks offer overdraft lines of credit, which work like a loan. Keep in mind that these programs typically come with their own costs. Of course, the best way to avoid overdrawing your account is to keep your checkbook up-to-date by recording all transactions and regularly balancing your account.

Will the bank and the account be convenient for me? If you make frequent visits to the bank or to ATMs, their locations (and the fees paid for ATM withdrawals) may be the most important consideration in deciding where to open a checking account.

Bank CDs: *New Options, More Flexibility for Stashing Your Cash*

Bank CDs — short for "certificates of deposit" — have been family favorites for generations to safely invest money for short or long periods. With the traditional FDIC-insured CD, you agree to keep the money in an account for a few weeks to several years. In return, the bank agrees to pay you a higher interest rate than you would receive from a checking or savings account. If you need to withdraw the money before the CD matures, you will pay a penalty.

But even the old CD is changing. "What's new is that many banks are tweaking the traditional CD to offer a more flexible product," said James Williams, an FDIC Consumer Affairs Specialist. "They are allowing depositors to take advantage of an increase in the interest rate."

Williams notes three common variations:

• "Bump-up" CDs, which enable a depositor to choose to switch mid-term to a higher interest rate if market rates go up;

• "Step-up CDs" that allow for periodic, pre-determined increases in interest rates; and

• "Liquid" CDs, which have fixed interest rates but permit the depositor to withdraw a portion of the original deposit early without paying a penalty.

How can you choose a CD wisely, especially if you're considering a nontraditional kind? First, think about how much money you're willing to keep untouched at the bank and for how long. Remember that if you have to withdraw the funds before maturity, you will pay a penalty, usually a loss of some or all of the interest you've earned — and perhaps even some of your principal (the amount you deposited).

Next, shop around for the highest interest rates for the CD amount and time period you're considering. In general, the larger the deposit and the longer the maturity, the more interest you can expect to earn.

When you shop, check with at least three or four CD providers, including institutions you already deal with and trust. Find out about interest rates, minimum deposit requirements, maturity dates, and early withdrawal provisions. Remember that these features can vary widely from bank to bank.

Try to understand the key terms and conditions of the CD and what they could mean for you. "An account that allows you to benefit from rising interest rates generally will cost you in terms of a lower initial interest rate compared to a traditional, fixed-rate CD," said Williams. "You should weigh whether the lower initial rate is worth the flexibility. After all, you're betting that the interest rates will rise and that the new rates will make up the difference." Williams also noted if interest rates go down in the future, "these new features you 'paid for' generally will do you no good."

Also be aware that there are other types of nontraditional CDs. For example, some CDs pay interest rates based on unusual indexes, such as those with the interest rate tied to the ups and downs in the stock market. (Stock-indexed CDs typically guarantee the return of your deposit but your interest earnings could be cut or eliminated if the stock market drops.)

In addition, sales people known as "deposit brokers" can sometimes negotiate higher interest rates on CDs from FDIC-insured institutions. However, broker-sold CDs can be complex and may carry more risks than traditional CDs sold directly by banks. These may or may not be good deals, depending on the offer and your personal investment goals.

"Deposit brokers aren't subject to the same disclosure requirements and other regulations as banks, so be sure you're dealing with a reputable broker who provides a

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Questions to Ask Before Purchasing a CD

What is the interest rate and how is it calculated? Banking institutions are required to express the interest earned on a CD as its Annual Percentage Yield (APY) to help consumers comparison shop. Make sure you understand the amount you must invest to get the quoted APY. If the CD has terms, such "bump-up" provisions that enable you to switch to a higher rate or "step-up" features that can automatically increase the rate, be sure to know how the interest rate can change and any fees that may be added. Remember that a CD with more flexible terms than a traditional, fixed-rate CD may be offered at a lower interest rate.

When does the CD mature? What is the early withdrawal penalty? Many people focus so much on the interest rate they fail to think about how long their money must be invested. If they need access to their funds before the maturity date, with most CDs they face a penalty for early withdrawal. Be sure to ask how much the institution will charge.

Will the CD automatically renew at maturity if I don't withdraw the money? If so, how will that be handled? Banks often will automatically renew a maturing CD if the depositor doesn't withdraw the money or set up a new account within a week or so after the CD matures. If that's the case, find out if the automatic renewals will be at the "old" interest rate or some current rate. If market rates have increased, it is not to your benefit to renew at the old rate.

How Credit Reports and Credit Scores Can Affect Your Buying Power

Even a modest improvement can get you a better deal on a loan or other financial product

Among the most important things you can do to get the best deal on a loan, a credit card, insurance and other financial products is to make sure your credit record is accurate and in its best possible shape. Why?

Because even a modest improvement in your credit reports (your history of paying debts and other bills) and your credit scores (numerical ratings of your credit history used by companies in making business decisions) can improve the offer on a financial product you may want.

In fact, something as simple as paying down your credit card balance or correcting erroneous information in your credit report can boost your credit score enough to save you hundreds of dollars each year in interest or other charges.

It's also important to remember that, as of September 1, 2005, residents in all 50 states and U.S. territories can obtain one free copy of their credit report each year from each of the three nationwide credit bureaus (Equifax, Experian and TransUnion).

Paying down your credit card balance or correcting errors in your credit report can save hundreds of dollars each year.

The law, which took effect in western states in December 2004, is intended to help people ensure the accuracy of their credit information and monitor their credit files for signs of identity theft. Prior law allowed for free credit reports only under certain circumstances.

"By giving all consumers access to free credit reports, more consumers should be encouraged to review their credit histories on a timely basis," said Cora Lee Page, an FDIC Consumer Affairs Specialist.

For more information about ordering free credit reports, go to the special Web site established by the three credit bureaus at www.AnnualCreditReport.com or call toll-free 877-322-8228.

Many experts say that if you have been denied a loan or offered credit on terms you think are unfavorable — and you believe your credit report is accurate — ask your lender about the role your credit score played in the decision and consider paying to see your score.

Even a modest change in your score could make a big difference. "If a lender requires a credit score of 680 or higher to get a mortgage loan with a low interest rate and the scoring system the lender is using puts you at 660, taking steps to improve your score may save thousands of dollars over the life of the mortgage," said Page.

The bottom line: Building or maintaining a good credit record and paying attention to how your credit history is reported — preferably *before* you apply for a new loan or other financial product — can save you time and money.

For more information, go to the Federal Trade Commission's Web site about credit reports and credit scores at www.ftc.gov/bcp/conline/edcams/credit/coninfo_reports.htm.

Pros and Cons of Banking Over the Internet

Reasons in Favor

Convenience: You can shop for financial products any time from anywhere you have an Internet connection.

More competition: You may be able to find a better price or a product that more closely meets your needs.

Easy comparison shopping: "With a few clicks of the mouse you can easily find and compare different products and rates," said Aurelia Cardamone, a Senior Technology Specialist in the FDIC's Division of Supervision and Consumer Protection. "Some consumer Web sites aggregate consumer feedback about financial institutions and their products."

The potential for lower fees: Some banks may waive certain fees for online customers, such as those for ATM withdrawals, to attract more users.

Reasons to Think Twice or Take Extra Precautions

No face-to-face contact: You won't be sitting down with a bank representative who can explain key terms or guide you in deciding which product best suits your needs. "It also may be more difficult to investigate a problem since you can't always go down to the branch," Cardamone said.

Some transactions may be more cumbersome or take longer: You may have to rely on the mail to sign important documents, make deposits or conduct other business.

Exposure to Internet risks: Your computer needs a firewall and updated virus and anti-spyware protection to keep your personal information from being stolen by hackers. Be sure you are dealing with a legitimate Web site, and never provide bank account numbers and other personal information in response to an unsolicited e-mail. Also remember that crooks use fake e-mails and Web sites to trick consumers into divulging personal information. For tips on guarding against fake Web sites and fraudulent e-mails, see the brochure *You Can Fight Identity Theft* on the FDIC Web site at www.fdic.gov/consumers/consumer/fighttheft/index.html.

Does a Great Gift Always Make for a Great Deal?

Banks are offering computers and other attractive incentives for opening new accounts. Don't make a decision based just on the freebies.

You've probably seen bank advertisements offering gifts to people who open a checking account, apply for a credit card or deposit money into a new certificate of deposit (CD). Some gifts are small, maybe a plastic piggy bank. Some are simply a cash bonus, perhaps $50. And others are more substantial, such as a name-brand computer and printer. How can you decide if the offer is worth taking?

Figure out whether the account being offered is what you want or need. The buying tips in this issue of ***FDIC Consumer News*** can help.

If you end up choosing between two accounts with like terms and features that both meet your needs, it's OK for the gift to be the deciding factor. "But don't let a gift alone tempt you into signing up for an account," warned Mira Marshall, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection. "You may end up paying dearly for that gift by foregoing more beneficial terms and conditions elsewhere."

Here's another reason to first be sure you are getting an account to your liking: It's easy to evaluate a cash bonus, but sometimes difficult to determine the quality or value of a product being offered by the bank.

Be aware that you must pay taxes on a gift worth more than $10. By law, the bank must report to the IRS the fair market value (which may include delivery charges) as income. If you receive multiple items in one year with a total value of more than $10, that value also will be reported as income and taxed accordingly.

Read the fine print and determine what you could lose if you can't meet all the terms of the account. Here's a real example based on a CD offered by one bank.

Let's say a bank is advertising a $20,000, 10-year CD, for which you would receive up-front a PC "bundle" (a personal computer, monitor and printer) valued at $1,000. The $20,000 deposit "must be maintained for the full term of the certificate of deposit [10 years]…or the value of the gift will be deducted from your account balance." How can you tell if that's a good deal for you?

Start by taking into account that you'll pay tax on that $1,000 in the year you receive the computer. Then carefully consider the account terms. If you need to withdraw any of your $20,000 deposit before the end of 10 years — even if it's weeks or months shy of that date — the bank would deduct $1,000 from your account, plus you'll pay a penalty for an early withdrawal from the CD. Remember, too, that you probably won't even have the computer at the end of the 10 years.

"You have to decide whether the interest you will earn on the CD, plus the value of the gift, is worth the risk that you will need those funds before the end of the 10-year period," Marshall said. "You might be better off with a different CD with less risk that your earnings will be reduced."

"Don't let a gift alone tempt you into signing up for an account. You may end up paying dearly for that gift by foregoing more beneficial terms and conditions elsewhere."

So, think about the type of account that's best for you, shop around, and always read the account literature before you agree to anything. That's good advice even if there's *no* gift being offered.

Banks as Financial Supermarkets

Banks and savings institutions are increasingly becoming financial supermarkets offering investments and insurance products in addition to insured deposits. Stocks, bonds, mutual funds, annuities and other products now being sold by banks can be attractive alternatives to deposits because they may provide a higher rate of return.

This array of financial products available from banking institutions also offers great convenience and more choices to consumers. But you also need to remember that, unlike deposits, these other products are *not* FDIC-insured and, in some cases, could lose value.

To minimize potential confusion, banks and savings institutions are required to clearly differentiate FDIC-insured deposits from non-deposit investment and insurance products in their sales practices and advertisements

For more information on the array of products available from banking institutions, see *One-Stop Shopping for Financial Services* in the Spring 2001 issue of ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnspr01/cvrstry.html

To learn more about which financial products offered by banking institutions are not FDIC-insured, go to www.fdic.gov/deposit/investments/index.html.

Credit Cards

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to "write himself a loan" with one of the blank "convenience" checks provided by the card company. Unfortunately, he failed to take note of the fact that the interest rate on that loan was different than what it was for his card — in fact, the loan had an Annual Percentage Rate (APR) of 24 percent, compounded daily.

Another person signed up for a new card every four or five months so she could transfer the balance from an old card and take advantage of the super-low introductory interest rate. She later discovered that having a lot of credit cards hurt her credit rating, which resulted in a higher interest rate when she applied for a mortgage.

Fortunately, several new disclosures that will soon be required should help consumers when choosing a credit card and managing their card debt. The bankruptcy law passed by Congress in March 2005 includes provisions that go into effect over the next couple of years and require card applications and solicitations to more clearly describe the temporary nature of any introductory interest rate. Other new disclosures will go out with monthly credit card bills and will, in particular, help consumers understand how much longer they will be in debt if they make only the minimum card payment due. (See Page 12 for more news about minimum card payments.)

For more guidance, go to *How to Choose and Use a Credit Card* on the FDIC Web site at www.fdic.gov/consumers/consumer/ccc/choose.html or read our card tips in the Spring 2002 ***FDIC Consumer News*** online at www.fdic.gov/consumers/consumer/news/cnfall02/index.html.

Bank CDs

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detailed written description of any proposed investment," added Williams. "We've heard some reports of unscrupulous brokers using offers of high interest rates on bank CDs to lure people into buying annuities or other non-deposit investment products that are not FDIC-insured and may carry risks or other features that are not suitable for those individuals."

For more about broker-sold CDs, see a special report in the Fall 2000 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnfall00/BankCD.html.

A Basic Shopping List for Bank Customers

We asked Janet Kincaid, FDIC Senior Consumer Affairs Officer, for a simple game plan most people could follow to make sure they're getting a good deal for the right services.

Periodically review your existing accounts. "Every few years, or when you believe your financial needs have changed, talk to a customer service representative at your bank to make sure you're signed up for the right kinds of accounts and features." Kincaid said. "For example, if you tend to carry a balance on your credit card, find out if can qualify for a card with a lower interest rate. Or, find out if your bank offers special deals if you maintain certain balances or use additional services, such as direct deposit of your paycheck."

At the same time, compare your bank's products and services with those of competitors. "Don't be afraid to shop around," she said. "If nothing else, you'll want to know that the rates, fees and services at your existing bank are at least comparable to what's out there in the marketplace and, most importantly, that they still meet your needs."

Always read and save the most recent "disclosures" you get about your accounts. Knowing the features, fees and limitations — before you open the account and later as you conduct business — can prevent misunderstandings and costly mistakes. "We always say to read the disclosures," Kincaid stressed. "Make sure you know exactly what you are getting and paying for and what you are not."

How the FDIC Can Help You Shop

The FDIC offers a variety of assistance to help consumers understand how to handle their money, shop for financial goods and services, and resolve complaints. These include:

• **Consumer information on the FDIC Web site** at www.fdic.gov. You'll find consumer brochures, alerts, and an interactive financial education program called *Money Smart* that provides a basic introduction to bank services.

• **Our quarterly newsletter *FDIC Consumer News***, which delivers timely, reliable and innovative tips and information — on everything from deposit insurance to debit cards and auto loans to automated teller machines. Read back issues online at www.fdic.gov/consumers/consumer/news. You can also sign up for a free subscription service that provides an e-mail notice about each new issue posted to the Web site and provides a link to stories of interest. Just follow the instructions at www.fdic.gov/about/subscriptions/index.html.

• **Answers to questions by phone or e-mail**. Contact the toll-free consumer assistance line at (877) ASK-FDIC — that's (877) 275-3342. It is staffed Monday through Friday, 8:00 a.m. to 8:00 p.m., Eastern Time. Recorded information is available 24 hours a day. You can also e-mail the FDIC using the Customer Assistance Form on the Internet at www2.fdic.gov/starsmail/index.html.

When the News Reports Say Your Personal Information May Be at Risk

You've probably seen reports on the news or in the paper about major "security breaches" in which a retailer, credit card processing firm or some other company revealed that confidential account information was "lost" or stolen. Chances are that you worried about *your* credit card numbers, Social Security number or other personal data being in the possession of identity thieves who might commit fraud in *your* name. Here's what to know and do:

• **New rules require a financial institution or its service provider to notify customers of security breaches.** Starting April 1, 2005, the FDIC and other federal banking regulators require that banks issue notices in the event of unauthorized access to sensitive data, including Social Security numbers, account numbers, passwords and other information that could result in "substantial harm or inconvenience to any customer."

"If you receive one of these notices, your financial institution will spell out the steps you should take to protect yourself," said Kathryn Weatherby, an FDIC bank technology supervision specialist. "Or, if the situation is serious enough, your bank may replace your credit card with a new one and close your old account."

• **Keep a close watch on your credit card bills and bank statements.** Look at your monthly statements as soon as they arrive and report a discrepancy or anything suspicious, such as a missing payment or an unauthorized withdrawal. While federal and state laws may limit your losses if you're a victim of fraud or theft, your protections may be stronger if you report the problem quickly and in writing.

Also contact your institution if a statement doesn't arrive on time because that could be a sign that an ID thief has stolen your mail and/or account information to commit fraud in your name from another location.

• **Exercise your new rights to review your credit record and report fraudulent activity.** Your credit report, which is prepared by a credit bureau, summarizes your history of paying debts and other bills. Under the Fair and Accurate Credit Transactions Act (FACTA), as of September 1, 2005, residents in all 50 states and U.S. territories, can get one free credit report each year from each of the nation's three major credit bureaus. The new law took effect in western states last December and has been gradually moving east.

Experts suggest spreading out your requests throughout the year — get one free report every four months instead of three at the same time — to maximize your protection.

To get your free report, go to www.AnnualCreditReport.com or call toll-free 877-322-8228. Review your credit report for warning signs of actual or potential ID theft, such as mention of a credit card, loan or lease you never signed up for. If you already are a victim of ID theft or you suspect you are a target, FACTA gives you new rights to place a fraud alert in your credit files at all three major credit bureaus by calling or writing any one of their fraud departments.

"These fraud alerts will help prevent an imposter from obtaining new credit in your name because, at a minimum, the lender will be required to make a reasonable attempt to verify the applicant's identity," explained Weatherby.

For more information about protecting against ID theft, see the Fall 2004 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnfall04/index.html.

Warning: Don't Be Fooled by Fake Checks

The FDIC wants to remind consumers that fraud artists are using counterfeit cashier's checks, money orders and other checks to trick victims into sending money. Many of these scams involve offers that arrive by mail or e-mail or that are in connection with Internet sales.

"The volume of fake checks reported to the FDIC in the last two years has increased dramatically," said Michael Benardo, manager of the FDIC's Financial Crimes Section. "The increase is due in part to crooks using advanced copying and printing technologies to produce authentic-looking counterfeit documents."

Here are examples of common scams:

• You get a cashier's check in the mail along with a letter congratulating you for having won a lottery. Then you're asked to send money to process your claim or to provide confidential information to open an account at "their" bank to receive your winnings. If you don't remember entering the lottery, this is probably a scam aimed at obtaining your money or personal information that can be used to commit other frauds.

• You receive an e-mail or fax from a stranger saying he or she can't get a large sum of money out of a foreign country because it has been "frozen" by the government. You're told that with your help — and money to pay up-front

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News Briefs

Credit Cards Raising Minimum Payments

Consumers who tend to make only the minimum payment due on their credit card bill each month can expect to write bigger checks than in the past. That's because many credit card issuers are increasing their minimum payment requirements after federal banking regulators expressed concerns about borrowers getting deeper in debt and taking too long to pay off their card balance.

"Being required to send in more money may seem like bad news but the bottom line is that it's good news in the long run in that you will be paying your debt off sooner and paying less in interest charges," said Janet Kincaid, FDIC Senior Consumer Affairs Officer. If you have questions, contact your card issuer.

New Rules on Use of Medical Information

Federal financial regulators in June issued new rules that clarify instances in which a lender can obtain or use a consumer's medical information in connection with a decision about credit eligibility.

The agencies said that a lender generally cannot consider a consumer's medical status or prognosis in making a credit-related decision but can consider payment information, such as whether he or she owes money to a hospital.

The regulations contain a few limited exceptions, such as one that allows a lender to consider medical information if doing so would be to the benefit of the consumer. For example, a creditor could consider someone's medical information if the person is requesting a higher credit limit to pay for a medical emergency.

New FDIC Service for Finding Bank Information

A new service on the FDIC's Web site enables you to quickly and easily answer questions such as: Is my bank insured? Where are its branches located? How can I find my bank's Web site? And, has a bank closed, merged or changed names?

To use the *Bank Find* page, go to www2.fdic.gov/idasp/main_bankfind.asp.

Fake Checks

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expenses or the temporary use of your U.S. bank account — the stranger will give you a check once the funds are recovered from abroad. Of course, the money you send will likely be gone, your bank account could be drained if you give them your account number, and any check you receive is most likely worthless.

• You sell an item over the Internet and the buyer sends a money order for an amount more than the agreed-upon price. The buyer instructs you to wire the excess funds back. If you comply, you will most likely find out that the money order is phony and the money you wired cannot be returned to you.

In these examples, if you deposit or cash the check or money order it likely will not "clear"(be paid) when it is sent to the bank on which it is supposed to be drawn. And, the fraudulent check will likely be returned to your bank and charged against your account. Depending on the circumstances and your state's laws, *you may be held responsible for the entire amount of the fraudulent check*.

In general, be very suspicious of offers that seem too good to be true. "Be smart and don't be tempted," said Benardo. "Stop and ask yourself, 'Why would someone I never met contact me for help getting money out of a foreign country? 'Why would a stranger send me a big check for no apparent reason?'"

When in doubt, Benardo added, "it's usually best to walk away from the deal immediately."

For more information about protecting against counterfeit checks, see a special report in the Spring 2003 ***FDIC Consumer News*** online at www.fdic.gov/consumers/consumer/news/cnspr03/index.html.

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Donald E. Powell,
Chairman

Elizabeth Ford, *Assistant Director*,
Office of Public Affairs (OPA)

Jay Rosenstein,
Senior Writer-Editor, OPA

Mitchell Crawley,
Graphic Design

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Send comments, suggestions or questions to: Jay Rosenstein, Editor, ***FDIC Consumer News***
550 17th Street, NW,
Room 7100
Washington, DC 20429
jrosenstein@fdic.gov

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