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FDIC Consumer News

Summer 2010

BANK Accounts ARE Changing

What You Need to Know

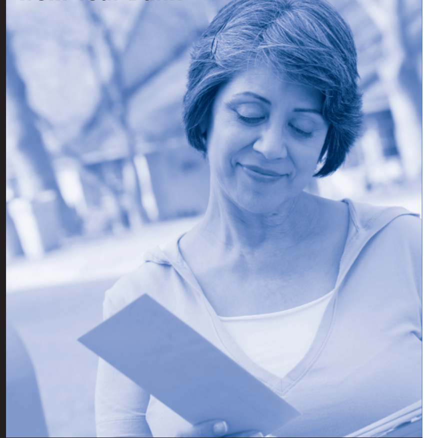
Costs may go up for checking and savings, but here are ways to pay less by going back to the basics

Comparison Shop

Minimize ATM Fees

Understand Your Overdraft Options

Monitor Communications from Your Bank



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FEDERAL DEPOSIT INSURANCE CORPORATION

Bank Accounts Are Changing: What You Need to Know

Costs may go up for checking and savings, but here are ways to pay less by going back to the basics

New rules limit the fees banks and other financial institutions can charge on some services, so it's possible that the costs of *other* services could go up. In the Spring 2010 issue of ***FDIC Consumer News***, we discussed how to avoid potential interest rate and fee increases for credit cards. And here, with expectations that banks will be adding new fees or requirements on bank accounts — such as by discontinuing or limiting free checking services — we focus on ways that careful consumers can avoid unnecessary costs on their deposit accounts.

Because it's hard to predict how banks will change their fees and policies for checking and savings accounts, what follows are basic strategies to keep costs down, many of which we have provided in the past but are especially worth revisiting now.

Comparison shop so you don't pay more for accounts than you have to. Look at what is being offered by your bank and a few competitors. If your bank is among those that eliminates its free checking services, you may still be able to find another bank offering them, especially if you sign up for direct deposit or electronic statements or you conduct a certain number of transactions each month.

(Note: Under Federal Reserve Board rules, an institution can't advertise a "free" checking account if you could be charged a maintenance fee or an activity fee —for example, a penalty 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.)

Some banks may be adding or raising minimum balance requirements. One alternative is to ask yourself if you can get by with a "no frills" checking account. This is an account that typically offers basic banking services without a minimum balance requirement or a monthly maintenance fee, but may limit the number of checks you write or your monthly ATM or debit card transactions.

When you see some accounts that are good possibilities, call, e-mail or visit the institutions and ask questions to find the account that offers the best rates and features and the lowest fees. "Start by asking your bank if it has an account that would be lower-priced than your current account," said FDIC Senior Consumer Affairs Specialist Evelyn Manley. "But also ask some competing banks if they can save you *more* money."

In today's low-interest rate environment, it might be better to choose a free account that pays no interest or only a small amount of interest instead of selecting an account that pays a modest interest rate but imposes a monthly fee. Similarly, it may be better to maintain a balance and avoid a monthly fee rather than putting that money in an account paying a modest interest rate. In both cases, any interest you would earn will probably be a lot less than the monthly fee, which can be $10 or higher.

Also, understand what you can lose if you do not meet the terms and conditions of the account. Before you open a new account, read all of the information about it, including the fine print. You do not want to be surprised later by limitations and fees you could have avoided.

"Some accounts have a higher interest rate than other accounts or no monthly fee, but *only* if the consumer meets all the specified conditions, such as making at least 12 debit card transactions a month or keeping a certain balance," noted Sachie Tanaka, an FDIC Consumer Affairs Specialist. "If you don't meet all of the conditions each statement period, you may earn a lower interest rate or accrue service fees, which may not make economic sense for you."

Similarly, ask your bank how it calculates the account balance for purposes of meeting a required minimum. "Some banks will charge a fee if the account balance falls below the minimum at any point during a month, while others charge a fee if the account's average daily balance during the month is below the minimum," added Heather St. Germain, another Consumer Affairs Specialist at the FDIC. "Understanding the rules will make them easier to follow and will help you avoid fees."

Protect against unexpected costs by monitoring communications from your bank. Whether you keep track of your account online or on paper, it's a good idea to promptly check account statements for errors that can cost you money, fees you didn't realize you were running up, and account changes you forgot about or didn't notice in the mailings from your bank.

It's also important to review your account statement as soon as you receive it to identify and dispute unauthorized transactions. Better yet, check your account activity online periodically instead of waiting for the statement to arrive in the mail. And consider signing up for electronic statements if your bank offers them. "That way, you'll get an e-mail notifying you about your latest statement online, which can be a good reminder to promptly review your account," said St. Germain.

Paying attention to account activity is also crucial if there are unauthorized transactions. In particular, if your debit or ATM card is lost or stolen, your liability for unauthorized charges is limited under federal law based on how quickly you report a problem. To get the most protection, you must notify your bank within two business days of learning that the card is missing.

In addition to reviewing account statements, read any other mail or e-mail from your bank. These communications may contain notices of important account changes, including increases in fees or penalties. "If you don't read the notices of cost increases, you won't be able to avoid them," commented St. Germain.

If overdrawing your account is an ongoing problem, look into alternatives to high-cost overdraft programs. By far, the best and cheapest way to avoid overdrafts is to keep a good record of your transactions — all of your deposits and withdrawals, including direct deposits, automatic transfers, ATM transactions and debit card purchases — and have enough funds in your account to cover your anticipated withdrawals.

As part of your system for keeping track of your account, find out if your bank will send you an e-mail or text message alerting you when a significant transaction posts to your account (such as a recurring automatic payment) or if your balance drops below a specific amount. This alert service, which is offered free at many banks, enables you to consider moving funds to your checking account from a savings account so you can avoid overdrawing your account. Be sure to understand the potential costs, if any.

In recent years, banks have offered overdraft programs that — for a high fee — automatically approved debit card and ATM transactions when the balance dipped below zero. "Although having an occasional overdraft covered can be beneficial, many of the automated programs make it easy to incur several overdrafts — even in a single day — and quickly rack up fees that can come to hundreds of dollars," warned FDIC Chairman Sheila C. Bair in a May 6 op-ed piece in the *San Francisco Chronicle*.

Under new rules that went into effect on July 1, banks must ask customers if they want to pay for overdraft coverage for debit card purchases and ATM withdrawals. If you "opt in" (agree) to this coverage, your bank can charge you a fee to process these transactions when they exceed your account balance. If you don't opt in, expect that these debit card and ATM transactions will be declined; you will, though, avoid paying an overdraft or insufficient funds fee.

Keep in mind that these new limitations *only* apply to one-time debit card transactions and ATM withdrawals. That means, for example, that your bank may cover an overdraft that occurs by check or automatic payment (such as for your mortgage, insurance premiums or health-club membership) without you opting in for overdraft coverage, and it is likely to charge you a fee for doing so.

In addition, remember that if the bank returns a check or automatic payment instead of covering it, you may encounter additional difficulties beyond the bank's fee. For instance, the merchant that initially accepted the bounced check may charge a fee for the returned item and not accept checks from you in the future.

If you often overdraw your checking account and you'd rather pay a fee than have a purchase declined, consider avoiding your bank's overdraft coverage and asking about less-expensive options instead. Among the possibilities:

• Link your checking account to a savings account so that, for a small fee, money would automatically be moved to cover overdrafts.

• Pre-arrange for an overdraft line of credit, which is an automatic loan triggered by a shortfall in your checking account. This loan will generally be less expensive than overdraft coverage, especially if you incur several overdrafts and pay a separate fee each time, but look into the costs for both options.

• If you're facing a short-term cash crunch, ask your bank and a couple of others if they offer an affordable small-dollar loan to cover your expenses.

If you struggle with overdrafts despite your best efforts to avoid them, and if you do not plan to participate in one of these lower-cost options, research what your bank and others may charge for covering overdrafts.

FDIC officials note that some banks are discontinuing certain fee-based overdraft coverage that carries high costs and others are lowering the fees charged for consumers who opt in to overdraft programs. So do your research, shop around and then make the best decision to suit your needs and your wallet.

Minimize fees at the ATM. Most banks don't charge their customers to use the bank's ATMs. So do your best to get cash at your bank or one of your bank's machines.

When you need cash and you're not near your bank or one of its ATMs, know your options. You especially want to avoid paying two fees — one to your bank, the other to another bank for using its ATM.

One possibility is to use your debit card when making a purchase and ask for cash back. This is also a good option if your bank charges a fee for exceeding a certain number of ATM transactions in a month. However, first confirm with your bank that getting cash back on a debit card transaction is free. And be sure to record the purchase as well as the cash withdrawal, so you don't overdraw your account.

For more on how to efficiently manage checking and savings accounts, visit the FDIC Web page www.fdic.gov/consumers and the U.S. government Web site www.mymoney.gov.

What If Your Bank Fails? First, Stay Calm

The different ways the FDIC protects depositors

Most FDIC-insured institutions are well-capitalized and well-managed, so it's unlikely that you will have deposits in a bank that fails. But it's common for people to ask, *What should I know and do if I hear that my bank has been closed?* We hope the following will answer your questions…and alleviate any concerns you may have.

Don't panic. Federal laws and FDIC practices are there to protect you. Federal law requires the FDIC to pay insured deposits — all the money determined by the FDIC to be within the federal insurance limits — "as soon as possible" after an insured institution fails. In most cases, the FDIC makes insured funds available to depositors quickly, usually on the first business day after the bank is closed.

"While news that your bank has failed can be scary, federal law makes it clear that deposits within the federal insurance limits are completely safe," said Janet Kincaid, an FDIC Regional Ombudsman. "In addition, the FDIC works diligently — even before the bank is closed — to ensure that the event goes smoothly."

She noted that the FDIC provides a special toll-free number consumers can call to speak with an agency representative, and that the FDIC's Web site www.fdic.gov also provides answers to frequently asked questions. "If you hear that your bank has failed, there is absolutely no need to run down to the bank or do anything other than to become familiar with how the FDIC will help you, as a bank customer, through the process," Kincaid said.

Most of the time, the FDIC is able to find a buyer for the failed institution. In this case, offices of the failed bank reopen under the name of the acquiring institution, usually by the next business day, and depositors automatically become customers of the new bank.

"Basically, the only immediate change you will see is a different name on the door," said Kincaid. "Until you're notified otherwise, you can continue to use your checks, online banking, and debit and ATM cards. You should continue to make your payments on any outstanding loans, just like you did in the past. And don't worry about the contents of the safe deposit box you have at the bank. You can access the box, just as you would on any other business day."

By law, the acquiring bank can lower the interest rate on your deposit account, but you also have the right to withdraw the money without penalty. Many closed banks had been paying above-market interest rates on CDs (certificates of deposit) and other accounts. If your bank fails and the deposits are acquired by another institution, the accrued interest on your account through the date of the closing will be paid at your same rate. However, after that date, your new bank has the right to reduce interest rates, subject to certain restrictions.

In particular, for CDs and other non-transaction accounts, the assuming institution cannot pay a lower interest rate than what it offers to its existing depositors for similar accounts. The assuming institution also must notify you of any changes it intends to make in the interest rate or other terms of your account.

"If you don't like the new terms offered, the good news is you can close your account without any early withdrawal penalty," advised Martin Becker, an FDIC Senior Deposit Insurance Specialist. "If you then decide to withdraw the money before maturity, you will receive your principal and the earned interest through the date of failure at your original interest rate, plus you will receive the interest accrued after the date of failure at the lower rate being paid by the acquiring institution."

"Don't dismiss the new bank just because of the rate reduction," Kincaid added. "It might offer other FDIC-insured deposit products to your liking or it may offer bank services that you didn't have before."

In the few instances when the FDIC is unable to find a buyer for the failed bank, depositors will quickly receive a check in the mail for their insured deposits — principal and accrued interest — up to the federal limit. "We try to have a check for the insured amount in the mail within three business days," said Arthur Cook, an FDIC Resolutions and Closings Manager.

If you have money over the federal insurance limit, you become eligible to receive payments of some or all of the uninsured deposits based on how much the FDIC recovers by selling the failed bank's assets. While that process can take several years, most payments to uninsured depositors are made within a year or two of the bank failure.

The FDIC has additional resources you can rely on. Visit the FDIC Web site to find information about your deposit insurance coverage at www.fdic.gov/deposit/deposits and the brochure "When a Bank Fails" at www.fdic.gov/bank/individual/failed. Or, call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342).

As Seen on TV: "60 Minutes" Offers Inside Look at a Bank Failure

For a rare, behind-the-scenes look at how large teams of FDIC employees quickly and quietly enable a failed bank's customers to conduct business as usual with a new institution, watch a 13-minute segment of the CBS program "60 Minutes" that aired March 8, 2009. You can find it on the FDIC's Web site at www.fdic.gov/news/letters/60minutes.html.

$250,000 Federal Deposit Insurance Amount Now Permanent

New consumer protection bureau also part of major reform law

The far-reaching financial reform law approved by Congress and signed by President Obama in July includes a variety of new protections for bank customers, including a permanent increase in the basic federal deposit insurance limit from at least $100,000 to at least $250,000 per depositor. Under prior law, the basic federal deposit insurance limit was set to revert back to $100,000 on January 1, 2014.

"With this permanent increase of deposit insurance coverage to $250,000, depositors with CDs (certificates of deposit) above $100,000 but below $250,000 will no longer have to worry about losing coverage on those CDs maturing beyond 2013," said FDIC Chairman Sheila C. Bair.

The permanent $250,000 insurance limit also will be especially helpful for consumers who have more than $100,000 on deposit and would like to consider a new CD that would mature after year-end 2013. "Now consumers can make their decisions about long-term CDs without worrying about what their insurance coverage will be in 2014 or 2015," said FDIC attorney Joe DiNuzzo.

In addition, the law created a new temporary program, similar to the FDIC's temporary program already in effect, that will provide full insurance coverage for deposits in noninterest-bearing transaction accounts at all insured banks, regardless of the dollar amount. The new program is scheduled to run for two years beginning December 31, 2010. While these transaction accounts are primarily used by businesses with large balances in their checking accounts, any depositor can qualify.

"We strongly encourage all bank depositors who have questions about their insurance coverage to go to our Web site at www.fdic.gov and use our Electronic Deposit Insurance Estimator (EDIE) or call our toll-free number at 1-877-ASK-FDIC," added Chairman Bair. "Insured deposits provide the comfort and peace of mind to depositors that their money is 100 percent safe — provided they keep their deposit balances within the insurance limits."

Other consumer protections in the massive new law include the creation of an independent Consumer Financial Protection Bureau located within the Federal Reserve System to monitor and regulate financial services such as debit cards, credit cards and mortgages. For updates on significant changes in federal rules and industry practices, stay tuned to ***FDIC Consumer News***.

Having Deposits at Two Banks That Become One

Special FDIC insurance rule protects customers with deposits over the $250,000 limit for at least six months after a merger or a closing

As we noted in the article above, the basic FDIC insurance amount is $250,000 per depositor, per insured bank. That means you could have up to $250,000 on deposit at one bank and $250,000 at another bank and it would all be fully insured. But what would happen if those two banks merge? Or, what if one of them fails and is purchased by the other bank?

First, remember that if the combined balance of all of your deposits at the surviving bank is less than $250,000, you have nothing to worry about. Your money would be fully insured. And even if the combined total exceeds $250,000, there's no reason to immediately withdraw money or restructure accounts. That's because the FDIC has a special rule that says when two banks merge, a customer's deposits will be considered to be separately insured — as if the two banks are still operating separately — for at least six months and possibly longer for certificates of deposit (CDs).

"The six-month rule is intended to allow depositors time to review their deposit insurance coverage, so they don't have to rush to the bank after a merger to withdraw amounts over $250,000 from the combined balance," said Martin Becker, an FDIC Senior Deposit Insurance Specialist.

"And with a CD," he said, "the FDIC allows the separate deposit insurance coverage to continue until the CD matures, so that the depositor doesn't have to take a penalty for an early withdrawal. It's only when the CD matures — perhaps years into the future —that the depositor may need to consider moving the excess above $250,000 to another FDIC-insured bank to continue to be fully insured."

Similarly, when a bank fails and it is acquired by another bank, the same six-month rule applies to a customer's deposits at both institutions. One issue that can arise, though, is that the acquiring bank has the right to lower the CD interest rates that the failed institution was paying. If that happens, you can move your money to another financial institution without paying an early withdrawal penalty. For more about what CD owners should know if their bank fails, see Page 4.

For more information about the FDIC's rules after a merger or bank failure, call toll-free 1-877-ASK-FDIC (1-877-275-3342).

Starting Out on Your Own: Personal Finance Tips for Young Adults

Have you ever taken $40 out of the ATM and a few hours later asked yourself where that money went? Or, do you use your debit card to make purchases but don't keep track of them…and then wonder how your balance got so low?

While everyone can benefit from learning about money management and taking a more hands-on approach with their finances, young adults — including those just starting a career or a family and others still in high school or college — have plenty to gain by learning to be smart about money, and a lot to lose by making uninformed decisions.

"As a young adult, even if you don't have or earn a lot of money, the financial decisions you make today can affect your lifestyle now and for years to come," said Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. "The good news is you don't need to be a finance expert to take charge of your financial future. A few basic concepts can go a long way."

Here are a few tips to get you started.

Create a personal financial plan that will make it easier to boost savings and control spending. "It isn't how much you *make* that's important, it's how much you *keep*," said Paul Horwitz, an FDIC Community Affairs Specialist. Start by keeping track of what you earn and what you spend and where.

Then take a sharp look at how much you spend on optional purchases, such as restaurant food and entertainment, and instead put some of that money to work for your future by saving or investing it.

"The key is to make some hard decisions about 'needs' versus 'wants,'" added Horwitz, "because every dollar we spend on something we don't really need is a dollar we don't have to save or spend on something we do need."

What steps can you take?

- Open a savings account and regularly add to it. Also "pay yourself first" with a set percentage of every dollar you get going to savings. "Set a realistic savings goal and remember that even $5 or $10 a week can add up over time," Horwitz explained.
- Arrange with your employer to automatically transfer some of your earnings to a savings or investment account.
- Build up an emergency savings fund you can use to pay for major, unforeseen expenses.
- Consider a separate account to save for big-ticket purchases, such as a new TV or bicycle, instead of charging them on a credit card and paying the money back over a long time with a lot of interest.
- Limit the amount of money in your wallet or purse and in your checking account, so you're less likely to spend it. Only carry a credit card when you plan to use it. Also do your best to limit regular living expenses, such as food, transportation and utilities.

Reynolds also advised that young adults protect against financial loss by making sure they have proper insurance (such as life, health and property insurance) and then reviewing the coverage at least once a year.

Start saving for both short-term and long-term goals, including retirement, even though that may be many years away. "Thanks to the miracle of compound interest, even a small sum of money saved regularly at a young age can quietly grow to a surprisingly large sum over the years," said Reynolds. The sooner you begin saving, the easier it will be to reach your financial goals, which may include buying a home, owning a business or retiring, instead of having to save a high percentage of your income at an older age.

And if you are working, "it makes so much sense to start, on the very first day, to put money into a retirement savings plan, especially if your employer will match part of your contribution, which is like getting free money," said Alberto Cornejo, an FDIC Community Affairs Assistant.

Keep your banking and bill-paying costs down. Comparison shopping for financial services can save you from paying unnecessary fees. A good strategy is to open a basic, low-cost checking account at a bank and pay attention to your balance so you don't spend more than you have in the account and pay high fees for overdrawing it.

"Maybe you can download an 'app' to your phone to help you track all money that comes in and out of your account or you can request electronic notifications when your balance drops to a certain level. Of course, you should always maintain a register to help you monitor your balance," said Reynolds. "Another way to save money is to avoid fee-based overdraft programs and instead ask your bank to cover any shortages by linking your checking account to a savings account."

Build a good credit record. As you pay your own bills and debts, you are building a credit record. Credit reporting companies collect information on your history of paying debts, which is used to prepare credit reports and credit scores that reflect your creditworthiness. In general, the better your credit history and credit score, the better your chances of borrowing money at lower interest rates. Your credit history may also be considered when you apply for a job, an insurance policy or an apartment.

A good credit score will be particularly important when you decide to buy a house.

One of the best ways to build and maintain a good credit record is to pay all bills and other debts on time. To do that, avoid charging more on your credit card than you can pay off in full by the due date each month. If you can't afford to pay that much, at least be sure to pay the minimum due, consistently and on time, to avoid late fees and a bad mark on your credit record. And if you cannot qualify for a regular credit card, you may consider a no- or low-fee secured credit card, for which you would keep cash in a deposit account that would serve as collateral.

Also obtain a free credit report once every 12 months from each of the three nationwide credit reporting companies at www.annualcreditreport.com. Review each report, correct any errors and check for suspicious activity that may indicate you are a victim of identity theft.

Stay safe online. Banking or conducting other personal business online can be a convenient way to handle your finances, but you need to take precautions. Among them: Install and automatically update antivirus software and firewall protection on your computer. Never give your Social Security number, credit or debit card numbers, personal identification numbers or any other confidential information in response to an unsolicited e-mail, text message or phone call, regardless of who the source supposedly is.

"Also, ignore online 'friend' invitations from people you don't know, because these may be covers for fraud artists," cautioned Michael Benardo, Chief of the FDIC's Cyber Fraud and Financial Crimes Section. Likewise, he said, be careful about the profile and contact information you post on social-networking and employment-related Web sites, because in the wrong hands it can lead to identity theft and other crimes. For more guidance on how to conduct banking and other business online, see the Winter 2009/2010 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnwin0910.

Keep important cards and numbers safe. Most experts suggest you carry in your wallet or purse only the plastic cards (ATM, debit, credit cards) you truly expect to use soon. Don't carry your Social Security card, either.

Also, don't leave your birth certificate or documents with your Social Security number unprotected at home, at school or anywhere else.

If you need to buy a car, consider the best way to pay for it. Understand the difference between buying and leasing a car. The Federal Reserve Board has published a guide called "Keys to Vehicle Leasing," online at www.federalreserve.gov/pubs/leasing. If you're thinking about borrowing money to pay for a car, see our tips in the Summer 2007 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnsum07/auto.html).

If you're renting a house or apartment, consider whether it's time to buy. Once you start earning a steady income, and you expect to stay in your community for a number of years, you may want to consider owning your first home. To learn more about homeownership and if it is right for you, consider talking to a HUD-approved counselor (start at 1-800-569-4287 or www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm).

Always keep learning about how to handle your money. Start at www.fdic.gov to find consumer information from the FDIC, including back issues of ***FDIC Consumer News***. Visit www.mymoney.gov to find financial education resources and tools from more than 20 different government agencies and Web sites.

"Many young people find learning about money fascinating because of the power it gives them to achieve their dreams," concluded Reynolds. "And anyone can get this power just by creating an action plan, the sooner the better."

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News Briefs

Agencies Looking to Update CRA Rules

The FDIC and the other federal banking regulators are considering updating their Community Reinvestment Act (CRA) rules to reflect recent changes in the financial industry and the needs of consumers. The CRA encourages institutions to meet the credit needs of their entire communities.

As part of the review process, the agencies held four public hearings around the country in July through mid-August. For more details, see www.fdic.gov/news/news/press/2010/pr10134.html.

New Rules Restrict Fees, Expiration Dates on Gift Cards

New Federal Reserve Board rules restrict inactivity fees and generally prohibit expiration dates of less than five years on retail gift cards used to make purchases at stores and service providers. The rules, which apply to cards sold on or after August 22, 2010, mostly cover gift cards that can be used to buy goods or services at sponsoring or issuing merchants, and gift cards used at any merchant that accepts the card's brand (MasterCard, Visa, American Express or Discover).

The rules do not apply to reloadable cards that are not marketed and intended for gift-giving purposes (for example, a reloadable, branded card that is intended to be used like a checking account) and cards that are given as a reward or as part of a promotion. For more information, visit www.federalreserve.gov/consumerinfo/wyntk_giftcards.htm.

Processing Changes Dramatically Cut the "Hold" on Deposited Checks

A major restructuring of the Federal Reserve Board's check-processing operations has resulted in most deposited checks being available for withdrawal within two business days unless the bank provides a note listing a valid reason to hold the funds longer. Under previous rules, a depositor would have to wait from one to 11 business days before funds could be withdrawn.

Bank funds-availability policies can vary, so ask a customer service representative if you want to know when a deposit can be withdrawn.

FDIC Unveils Updates to "EDIE" the Insurance Estimator

The FDIC has launched an updated version of "EDIE," our online Electronic Deposit Insurance Estimator, which helps consumers determine if their deposit accounts at FDIC-insured institutions are fully protected.

The latest EDIE provides new functions requested by consumers and bankers, such as the ability to calculate the deposit insurance coverage for irrevocable trust accounts (held in the name of trusts that cannot be changed) and for deposit accounts by government entities such as cities and counties. You can find EDIE at www.fdic.gov/edie.