Fall 2011

FDIC Consumer News

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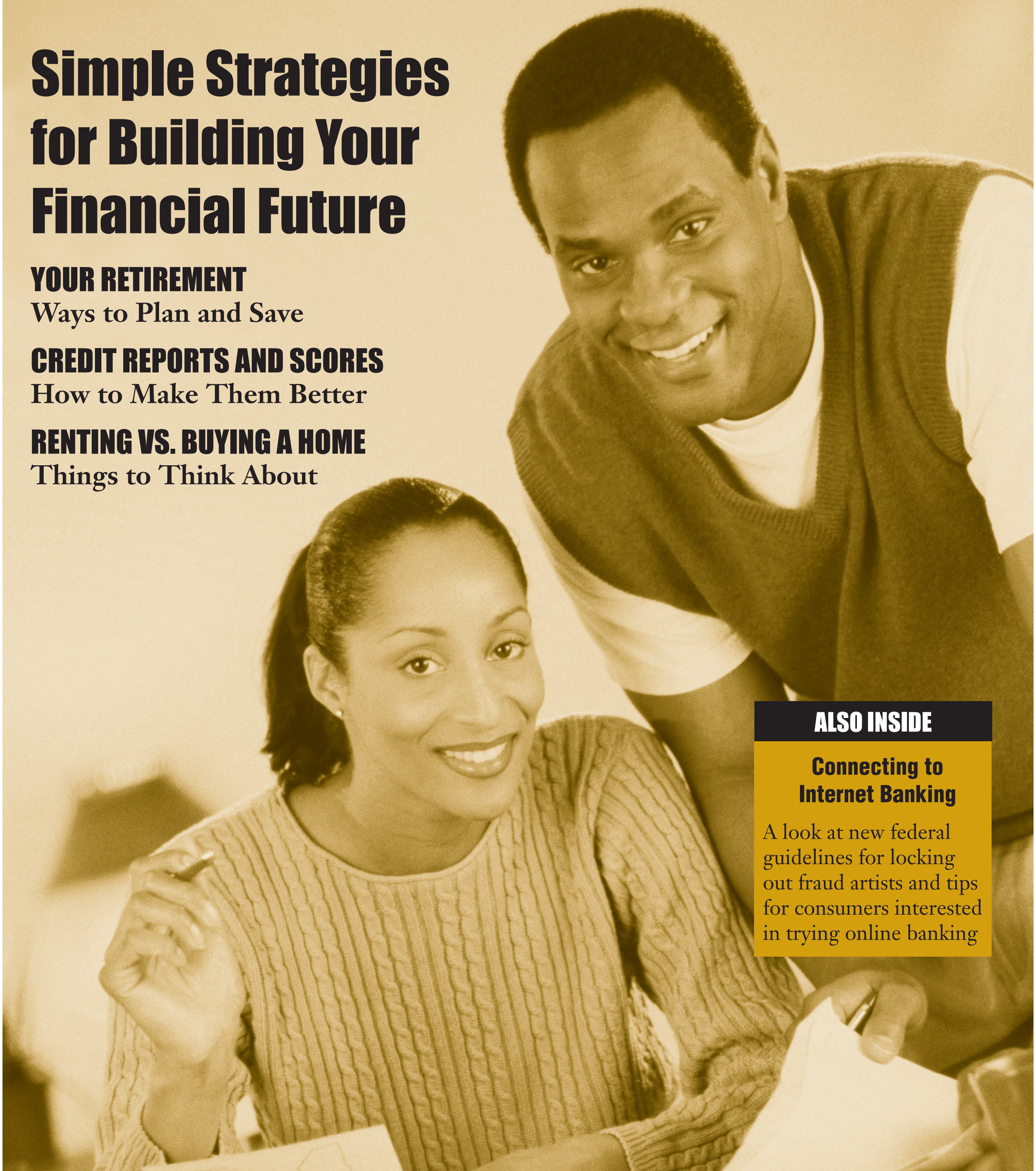

ALSO INSIDE

Connecting to Internet Banking
A look at new federal guidelines for locking out fraud artists and tips for consumers interested in trying online banking

FEDERAL DEPOSIT INSURANCE CORPORATION

Logging In…and Locking Out Fraud Artists

What to know about new federal guidelines for how banks confirm the identity of online users

Many consumers appreciate the convenience and speed of banking and bill paying over the Internet. However, some are concerned about the safety of their money and personal information based on news coverage of fraud artists making unauthorized transfers from accounts. That's why the FDIC and other federal financial regulators recently updated the guidelines on how banks should verify that someone logging on to a bank's Web site is the real owner of a particular account. The new guidelines are effective January 1, 2012.

Here's perhaps the most important change: Under the guidelines in place since 2005, banks were expected to require more than just a password to allow access to an Internet bank account; people logging in also needed to clear a second hurdle, such as correctly responding to a series of questions that only the account owner and the bank knew the answers to. Under the new guidelines, banks also will be expected to have additional layers of stronger security — both before account access is granted and before money can be transferred out of that account.

"For example, your bank may check that the computer you are logging in from is located where you live and not in a foreign country, or it may put a hold on fund transfers that don't match your payment history until the bank can verify the legitimacy of that transaction," explained Jeff Kopchik, an FDIC Senior Policy Analyst who specializes in technology issues.

Also, while most of these new security measures will operate behind the scenes, your bank may contact you about the new controls and any changes in online banking procedures. For that reason, the FDIC and other banking regulators are concerned that fraud artists may attempt to

repeat scams that surfaced when the 2005 guidelines were issued. Back then, fraud artists pretending to be bankers sent e-mails asking consumers to "enroll" in a new security program. The fraudulent e-mails asked consumers to provide certain sensitive personal information (such as a password) or to click on a link that appeared to be legitimate but actually installed malicious software — often called malware — that allowed the crooks to spy on the individual's computer.

"In most cases, any new security procedures that your bank implements in response to the new guidelines will not require you to take any action, so be wary of any e-mail that appears to be from your bank and that asks you to provide information such as your password or that asks you to click on an embedded link," warned Laura Lapin, a Section Chief in the FDIC's Technology Supervision Branch.

If you receive such an e-mail and have any concern about its authenticity, contact your bank directly.

Also beginning January 1, 2012, federal examiners will begin reviewing banks' assessments of their online banking risks as well as the new security measures they put in place.

Still on the Sidelines? How to Get Started with Online Banking

Internet banking has evolved into one of the most popular services offered by banks, with reports indicating that nearly 60 million U.S. households are using it. If you haven't tried online banking, is it something you should consider, even if you believe you're managing your finances just fine without it?

Here are some of the reasons consumers have found online banking beneficial:

• Internet banking is available 24 hours a day, so you can handle your finances on your schedule, not just when your local bank branch is open;

• Online transactions, especially electronic bill-paying, are generally faster than mailing a paper check;

• It can help reduce clutter by eliminating paper bills and statements that may be piling up around your home; and

• Using less paper is environmentally friendly.

"Online banking is faster, more convenient and more secure than ever," commented Jeff Kopchik, an FDIC Senior Policy Analyst who specializes in technology issues. "Many consumers appreciate the convenience of banking and paying their bills online, in addition to instant access to account information, which helps them manage money more effectively."

So if you are looking for a more convenient way to manage your money, here are suggestions from ***FDIC Consumer News*** on how to get started.

1. Check with your current bank. Talk to your banker or go to your bank's Web site to find out if it offers Internet banking services and whether there are any fees. Most banks don't charge their customers for basic

Internet banking — such as reviewing your account balances and transferring funds between accounts — so signing up at your current bank may be the easiest, cheapest way to go.

2. If your bank doesn't offer Internet banking or the fees seem high, shop around. Visit the Web sites of other banks to compare their Internet banking services and the fees and limitations.

"Of course, it will take some time to comparison shop and then to open an account at a new bank, but if you are going to add convenience or save money, the time spent can be worthwhile," offered Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section.

3. Check out the ratings. Each year, independent consultants rate various institutions' Internet banking services for reliability, speed and ease of use. You may want to take a look at these ratings before you pick an institution for online banking.

4. Learn as much as you can upfront about how to bank safely online. All banks are expected to conform to Internet banking security guidelines issued by the federal financial regulators (see the first article on Page 2). However, before you agree to bank online, become familiar with what will be expected of *you*, too. "Review the bank's Web site for its tips for keeping your account information safe," Kopchik said.

What kinds of security measures will you be expected to take? "You should secure your own computer by installing and automatically updating antivirus software and firewall protection," offered Michael Benardo, Chief of the FDIC's Cyber Fraud and Financial Crimes Section. "And while most banks prevent unauthorized access by using 'encryption' to scramble account numbers and other private information, you need to take your own precautions."

Protect your passwords and personal identification numbers (PINs) by not using birthdays or other numbers or words that may be easy for other people to guess. Also, never send a bank or anyone else an e-mail with personal information such as your bank account, credit card or Social Security number, unless the e-mail is encrypted.

As with any banking service, be prepared to keep good records, so you can help spot and reconcile an error. "Another good thing about Internet banking is that it allows you to easily monitor transactions and account balances regularly," Benardo added. "Then, if you find a discrepancy or unauthorized transaction, promptly notify your financial institution."

5. Consider using mobile banking. That refers to the relatively recent ability to do your banking not just from your home computer but also from a smartphone or a "tablet" computer.

"Mobile banking can be a very convenient service for customers who travel extensively and want the option of accessing their online account from virtually anywhere, but be sure you understand all the terms and conditions that will apply, including any additional fees," said Luke Brown, an Associate Director in the FDIC's Depositor and Consumer Protection Division.

He added that mobile banking "also provides consumers who may not have traditionally done business with banks an opportunity to gain access to a wide array of banking products and services through a new channel."

If mobile banking is a service you are interested in, check the bank's Web site to confirm that your mobile device can be used and that you understand which services are available.

For more information on safe online banking, see the resources below.

For More Help or Information About Safe Internet Banking

The Federal Deposit Insurance Corporation has consumer brochures, articles in ***FDIC Consumer News*** and other information about Internet banking and protecting your privacy online. Start at www.fdic.gov/quicklinks/consumers.html or call toll-free 1-877-275-3342.

A variety of other federal agencies also respond to consumer inquiries and produce educational material on Internet banking. For information from 22 federal agencies including the FDIC, visit www.mymoney.gov and search by topic.

The Federal Trade Commission at www.ftc.gov/bcp/menus/consumer/tech.shtm has good information, especially the "OnGuardOnline" site, on how to use the Internet safely. You can also call the FTC toll-free at 1-877-382-4357.

Financial institutions, Internet service providers, consumer organizations and the news media publish tips and information you can find by searching the Web. Also contact your bank if you have a question or concern about Internet banking.

IRAs, 401(k)s and More: Making Sense of the Alphabet Soup of Retirement Accounts

Consumers and small business owners are fortunate to have a variety of retirement savings opportunities available to them — from IRAs and SEPs to 401(k)s and 403(b)s — that can be used to save for retirement and save on some taxes. These options are especially important now that traditional pensions and other employer-funded retirement plans have become increasingly rare. One big challenge, though, is determining which retirement savings vehicles may be right for you.

"Every day, the FDIC receives questions from individual consumers about the deposit insurance coverage of their retirement accounts but they also have important concerns about tax issues and other matters," noted Martin Becker, an FDIC Senior Deposit Insurance Specialist. "It's clear that many people would appreciate and need help understanding fundamental concepts regarding retirement plans, which could be their most important savings for their future."

While the FDIC can't advise you on where to put your money, we can help you understand the basic characteristics of different types of retirement options available from banks and other institutions so that you, perhaps in consultation with a financial or tax advisor, can make the right choices.

Here are a few issues to consider for the most common types of retirement plans that are self-directed, meaning that the consumer chooses how and where the money is deposited or invested. (Note: We use "retirement plan" to refer to one of several types of savings programs offered by a financial institution or an employer, and "retirement account" for an individual's funds within a retirement plan.)

Tax Considerations

In general there are two kinds of self-directed retirement plans: those that are tax-deferred and those that are after-tax.

• ***Tax-deferred retirement plans,*** which include traditional Individual Retirement Accounts (IRAs) and employer-sponsored 401(k)s, allow you to reduce your taxable income by the amount of the deposits or investments made each year. "That's the main advantage — your contribution reduces your income tax bill for that year," explained Calvin Troup, a Senior Consumer Affairs Specialist at the FDIC. "In addition, you hope that the account will increase in value over the years through appreciation and any interest or dividend earnings, and that growth would be tax-deferred. Another advantage with IRAs and other self-directed plans is you have a say as to where your funds will be invested."

Tax-deferred retirement accounts may be best suited for people who anticipate their income tax rate will be lower after retirement than before retirement. What's the disadvantage of tax-deferred retirement plans? "As the title implies, taxes must be paid at some point in the future," said Troup.

And by law, you must start paying taxes on the funds you withdraw from the account. Withdrawals after age 59½ are taxed as ordinary income and are not subject to the 10 percent tax penalty imposed on early withdrawals (those taken before age 59½). For many people, withdrawals usually start April 1 of the year following the year in which they turn 70½ years old, which is when a "required minimum distribution" (RMD) must be taken.

• ***After-tax retirement plans,*** which include Roth IRAs and employer-sponsored Roth 401(k)s, enable a consumer to make contributions using after-tax dollars. This means the consumer has already paid income taxes on the funds that will be used for the deposits or investments. "However, one advantage is that, if certain conditions are met, you will not have to pay income tax on withdrawals, so your interest or dividend earnings and the appreciation in the account will grow tax-free," Troup said. And what could trigger income taxes on withdrawals? Common examples include the IRA owner taking distributions prior to age 59½ or a beneficiary not following Internal Revenue Service requirements for distributions after the account owner's death.

Another advantage of after-tax retirement plans is that there is no requirement that you have to take distributions when you reach 70½. That flexibility makes these plans good for estate-planning purposes because it's possible to build a large sum of money to leave to beneficiaries and heirs without them having to pay taxes on that money.

Roth IRAs and other after-tax retirement accounts make sense primarily for consumers who (a) expect that they will be in a higher tax bracket in retirement, so that it is more advantageous to be taxed on their contributions before they retire instead of on their withdrawals later, or (b) want to use these accounts for estate-planning purposes, meaning to leave funds directly to their children and other beneficiaries.

Ways to Invest

Both tax-deferred and after-tax retirement plans also provide you with the opportunity to widely diversify the assets in your account. "Many financial planners suggest adding stocks and mutual funds to your retirement mix, which can provide opportunities for growth, and adding bonds to provide income. But remember, these investments can increase and decrease in value and they are not protected by FDIC insurance against loss, even if they are purchased from an insured banking institution," Troup said.

"One common strategy that financial advisors also recommend," he added, "is to invest a large percentage of your retirement funds in growth-oriented stocks and stock mutual funds early in your working years, and then start moving the funds to more conservative, income-generating investments, such as bonds, bond mutual funds, and insured bank certificates of deposit (CDs), as you get closer to retirement."

Deposit Insurance Coverage

As Becker noted, "Retirement funds that you want to be safe and secure can be placed in CDs or other interest-bearing deposit accounts at FDIC-insured institutions." The deposit insurance coverage is up to $250,000 for the combined balance of all self-directed retirement accounts owned by the same person in the same insured bank.

Here are some key points to remember: First, adding beneficiaries does not increase the maximum deposit insurance coverage of $250,000 for self-directed retirement accounts.

Also, when an IRA depositor passes away, if the account continues to be held in the name of the deceased depositor (in accordance with IRS rules), that money will continue to be separately insured from any IRA deposits at the same bank that were established by any beneficiaries. For example, if Jane Smith has an IRA naming her daughter Sally as the beneficiary, and Jane dies, that money will be insured separately from any retirement accounts that Sally has established at the same bank provided that the mother's account continues to be held as an IRA in Jane's name.

To learn more about the tax aspects of a particular retirement plan, see the Internal Revenue Service Web page "Types of Retirement Plans" at http://go.usa.gov/Xe1 or consult a tax advisor. For help or information about the FDIC insurance coverage of retirement accounts, visit www.fdic.gov/deposit/deposits or call 1-877-ASK-FDIC (1-877-275-3342) and ask to speak to a deposit insurance specialist. And for tips on saving money for retirement, read the next article.

Retirement Planning and Saving: Basic Strategies for Achieving Your Goals

1. Figure out how much money you will need to save for retirement. Start by contacting the Social Security Administration at 1-800-772-1213 or going to www.socialsecurity.gov/estimator to learn what your monthly Social Security benefit would be when you plan to retire. Remember, if you retire before your "full" retirement age (available at that same Web site), your benefits will be reduced. Then use an online calculator (offered by many banks and other organizations) to estimate how much you need to save each month or consider talking to an advisor, perhaps a financial planner (visit www.sec.gov/answers/finplan.htm on the Securities and Exchange Commission Web site).

2. Take advantage of retirement savings programs at work, especially those involving matching contributions from your employer. "If your employer has a program to help you save for retirement, sign up and contribute — and in particular, save as much as you need to get the full amount of any match the employer may offer," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. "And if your contributions are tax-deductible, the money you save in taxes means your take-home pay may not drop much."

3. Make sure your investments are diversified. "Understand that if you're starting out in your career you can generally afford to take more risks with your investments than if you're closer to retirement, when you need to be concerned about losses that could delay or jeopardize your plans to retire," Reynolds added.

4. Explore IRAs (Individual Retirement Accounts) and other programs that can help you achieve financial goals and save on taxes. In particular, self-employed individuals and others not covered by a traditional retirement plan at work should explore these options.

5. Cut back on unnecessary expenses so you have more money for retirement savings. For example, pay off most or all of your credit card balances and other loans to save on interest and avoid having to make these payments during your retirement years. Also, think carefully before purchasing any investment, including a variable annuity, that comes with high fees or penalties if you withdraw money early.

6. Be on guard against retirement investment scams. Walk away from solicitations that "guarantee" consistently high returns or that otherwise sound too good to be true — especially from a stranger or anyone who pressures you to quickly say "yes" to an offer. If the seller runs off with your money, that can seriously impair your retirement years. For additional guidance, see the U.S. Securities and Exchange Commission Web page "Avoiding Retirement Frauds" at www.investor.gov/employment-retirement/retirement/avoid-retirement-fraud.

To learn more, see the box below.

More About Retirement Savings

The Federal Deposit Insurance Corporation has useful information including articles in ***FDIC Consumer News*** and brochures on deposit insurance coverage. Start at www.fdic.gov/quicklinks/consumers.html or call toll-free 1-877-ASK-FDIC (1-877-275-3342).

For help or information from a variety of federal government agencies including the FDIC, visit www.mymoney.gov and click on "Planning for Retirement" or call toll-free 1-800-FED-INFO (1-800-333-4636).

Financial institutions, consumer organizations and the news media also publish tips on retirement savings that you can find by searching the Internet.

Your Credit Reports and Credit Scores: Simple Steps to Make Them Better

It is no secret that the information in your credit report may be used to help determine whether or not you will get a loan and how much you will pay for it — and perhaps even the cost of your insurance or if you can get a new job or apartment. But how much do you really know about credit reports and credit scores and how to improve them?

"In a difficult economy, it's critical to know what's on your credit reports and why, and it's especially important to know how to rebuild a credit history after a financial setback," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. Here are several tips.

Review your credit reports for inaccurate information. You can request a free copy of your credit report from each of the three major credit bureaus — Equifax, Experian and TransUnion — once every 12 months, as well as under certain other circumstances, such as if you've been denied credit or employment based on your credit report or if you believe you may be a fraud victim.

To order your free annual report from any of those three companies, there is only one place to go: visit www.AnnualCreditReport.com or call toll-free 1-877-322-8228. Remember to review each report carefully, as the information in your file at each bureau may vary. And, if you receive a notice that a lender or another entity used a credit report from a company other than one of these three credit bureaus, request your free copy from that bureau, too.

Once you obtain your report, review it for any inaccurate information and, if you find any, follow the procedures outlined by the credit bureau for disputing the information. "While you should review your credit report regularly, it is particularly important to make sure your credit report is accurate before you apply for a loan because the information in your credit report will determine your credit score," Reynolds explained.

Know your credit score. Your credit score is a number that is developed by a computer model based exclusively on the information in your credit report. It is intended to predict, for example, how likely you are to repay your debts. Keep in mind that credit scores may vary depending on which scoring services prepared them and which of the many different credit scoring models is being used.

If you are interested in knowing your credit score, you can order one for a small fee from a number of outlets, most of them accessible online. When doing so, though, think carefully before signing up for a subscription to additional services, which can be costly.

If a lender uses a credit score to help set material terms (such as the interest rate) on your loan or credit card, the lender, in most cases, must inform you of the score and related information free of charge. The lender also must provide similar information if the score is used in a decision to deny credit.

Understand what factors are likely to influence your score. For most major scoring models, whether you repay loans as agreed (on time) is generally the most significant factor influencing your score. That's why it is important to pay your bills on time.

Another key component of your credit score is how much you currently owe on each account compared to its original loan amount or credit limit. Additional factors include how long you have had your current loans and credit cards, the types of credit accounts you have, and how many recent "credit inquiries" you have (these are requests by lenders for your credit report or score in response to your applications for new credit).

Recent changes in one major scoring model also suggest that how close you are to your credit limit on your credit card may have more of an effect on your credit score than in past years, while changes in another major scoring model suggest that credit inquiries may hurt you more now than in the past.

Contrary to common misconceptions, though, your credit score will not be lowered when you order your own credit report.

Understand how to improve your credit reports and scores. In addition to ensuring that your credit reports are accurate, consider the following:

• Pay your loans and other bills on time. Even if you fell into trouble in the past, you can rebuild your credit history by beginning to make payments as agreed. Paying your debts on time will have a positive effect on your credit score and can improve your access to credit. So, don't pay a fee to a company that promises to "clean up" your credit record for a fee.

• To help show that you are not overextending on debt, try to minimize how much you owe in relation to your credit limit. Joni Creamean, Chief of the FDIC's Consumer Response Center, suggested one strategy for achieving that goal. "Don't automatically close accounts that have been paid in full and haven't been used for a while," she said, "because that can lower your available credit and make the ratio of credit used to credit available worse. The exception is an account that continues to be assessed monthly fees even with a zero balance."

• If you believe you cannot repay your creditors, contact them immediately and explain your situation. Ask about renegotiating the terms of your loan, including the amount you repay. Reputable credit counseling organizations also can help you develop a personalized plan to solve your money problems, but less-reputable providers offer questionable or expensive services or make unsubstantiated claims.

For more information on credit reports and credit scores, plus guidance on choosing a credit counselor, go to www.mymoney.gov and search by topic.

Renting vs. Buying a Home: Things to Think About

With housing prices still low in many areas and a favorable mortgage-rate environment, people who don't own their home may be thinking about buying instead of renting. Here are points to consider:

Why Rent?

Freedom to move: If you unexpectedly need to find less-expensive housing or move to a different location, as a renter you won't have to worry about the risk of selling a home for less money than you paid for it. This situation of owing more than your home is worth could occur if there were an over-supply of housing on the market. And, if you are already planning to move in just a few years, renting is often a better choice financially. "Even if the value of your home goes up during that short time period, the costs associated with selling it would likely exceed your profits," said Evelyn Manley, a Senior Consumer Affairs Specialist at the FDIC.

Smaller up-front costs: "Renting may be the way to go if you don't have the cash needed for a down payment on a home and for closing costs on a mortgage," noted FDIC Consumer Affairs Specialist Heather St. Germain. For renters, the big initial payout is a month or two of rent as a security deposit. Compare that to the tens of thousands of dollars that many homebuyers need for a down payment, plus closing costs. St. Germain also said that if you don't have a certain amount for a down payment — generally 20 percent of the home's value — the lender may require you to also pay for mortgage insurance, which will add to the cost of your loan.

No need to worry about major maintenance costs: As a renter, you're unlikely to be responsible for replacing a leaking roof or a broken furnace.

Monthly costs are often lower: Rent-related expenses usually will be less than what a homeowner would pay each month in "PITI" — principal and interest on a mortgage, property taxes and homeowner's insurance. If you rent, you should purchase renter's insurance, which is likely to be less costly than homeowner's insurance for a comparable property.

Why Buy?

Wealth creation: By paying the mortgage each month over many years, you will likely build up equity (the current value of the home minus what you owe on your loan) for a down payment for your next home or for some other purpose, such as retirement. And, if you live in a home long enough to pay off the mortgage, you will have a valuable asset to sell or leave to a family member. "In contrast, after 30 years of paying rent, you will have nothing to show for it in terms of a home that also will serve as your nest egg," said Manley. If you pay off your mortgage, you'll also have one fewer payment to worry about each month (although you will still have to pay for real estate taxes, insurance, repairs and any homeowner or condominium association fees).

Emotional satisfaction: You can put down roots in a community you like. Owning a house can be satisfying in itself.

Fixed-rate mortgages add stability: "Landlords can raise rents, but if you buy a home with a fixed-rate mortgage, most of your monthly payment — the part not including real estate taxes or insurance— won't change for 30 years, 15 years, or however long you have that mortgage," said Glenn Gimble, an FDIC Senior Policy Analyst. It's important to remember, though, that taxes or insurance could still go up.

How can you learn more about renting vs. buying a home? A good place to start is the "Buying a Home" page on the U.S. Department of Housing and Urban Development (HUD) Web site at http://go.usa.gov/Xu6. And, to speak to a HUD-sponsored counseling agency that can offer free or low-cost advice on renting or buying a home, visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm or call 1-800-569-4287.

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Martin J. Gruenberg, *Acting Chairman*

Andrew Gray, *Director, Office of Public Affairs (OPA)*

Elizabeth Ford, *Assistant Director, OPA*

Jay Rosenstein, *Senior Writer-Editor, OPA*

Mitchell Crawley, *Graphic Design*

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

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Updates and Reminders

Are You Getting the Best Deal?

Are you paying (or about to begin paying) a monthly fee for your checking account or higher costs for certain services, such as debit card transactions? ***FDIC Consumer News*** wants to remind readers that there are ways to limit or avoid checking account fees.

Start by asking your bank about other accounts that may waive certain fees if, for example, you keep a minimum balance or use direct deposit. Also, shop around for better deals. Learn more about how to keep costs down in a special edition of ***FDIC Consumer News*** (the Spring 2011 issue) entitled "Shop and Save...at the Bank" (www.fdic.gov/consumers/consumer/news/cnspr11).

Should You Refinance?

Homeowners who are considering refinancing their mortgage loan at historically low interest rates are reminded to make sure that doing so will save them enough money to justify the costs of a new loan. For guidance, see our article on mortgages in the Spring 2011 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnspr11/mortgages.html).

Also, for those of you with an existing mortgage that was sold to Fannie Mae or Freddie Mac on or before May 31, 2009, the Obama Administration has unveiled changes to its Home Affordable Refinance Program (HARP) intended to enable more borrowers, especially those with a home that has decreased in value, to refinance into mortgages with a lower interest rate. To learn more, start at www.makinghomeaffordable.gov or call the Homeowner's HOPE Hotline at 1-888-995-4673.

New Help with Student Loans

The Obama Administration has announced that it will provide relief to an estimated 1.6 million borrowers who are struggling with student loan debt. Starting in 2012, eligible borrowers will be able to limit their monthly federal student loan payments to 10 percent of their discretionary income. The Administration's initiative also will enable borrowers to consolidate federal loans and reduce their interest rates under a special option available in January 2012.

For more information, start at the U.S. Department of Education press release at http://go.usa.gov/X8k.

In addition, as a result of a 2008 law change, colleges receiving federal aid are now required to post on their Web sites a net-price calculator intended to give prospective students a better idea of the likely cost of attending that school. You can find the colleges with the highest and lowest net prices at http://collegecost.ed.gov.

Tax Time Cometh: Ways to Save

As you prepare to file your taxes, keep in mind some money-saving tips. Look into free tax help. Remember that direct deposit into your own bank account is the fastest, safest way to receive a tax refund; if you file your return electronically with the IRS and have your refund direct deposited, expect to receive that money within about 10 days. Also, consider allocating part of your refund to go directly into a savings account or to purchase a U.S. Savings Bond. The remainder can still be used to pay down high-interest debt.

For more information, see the Fall 2010 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnfall10/happyreturns.html).