

Winter 2011/2012

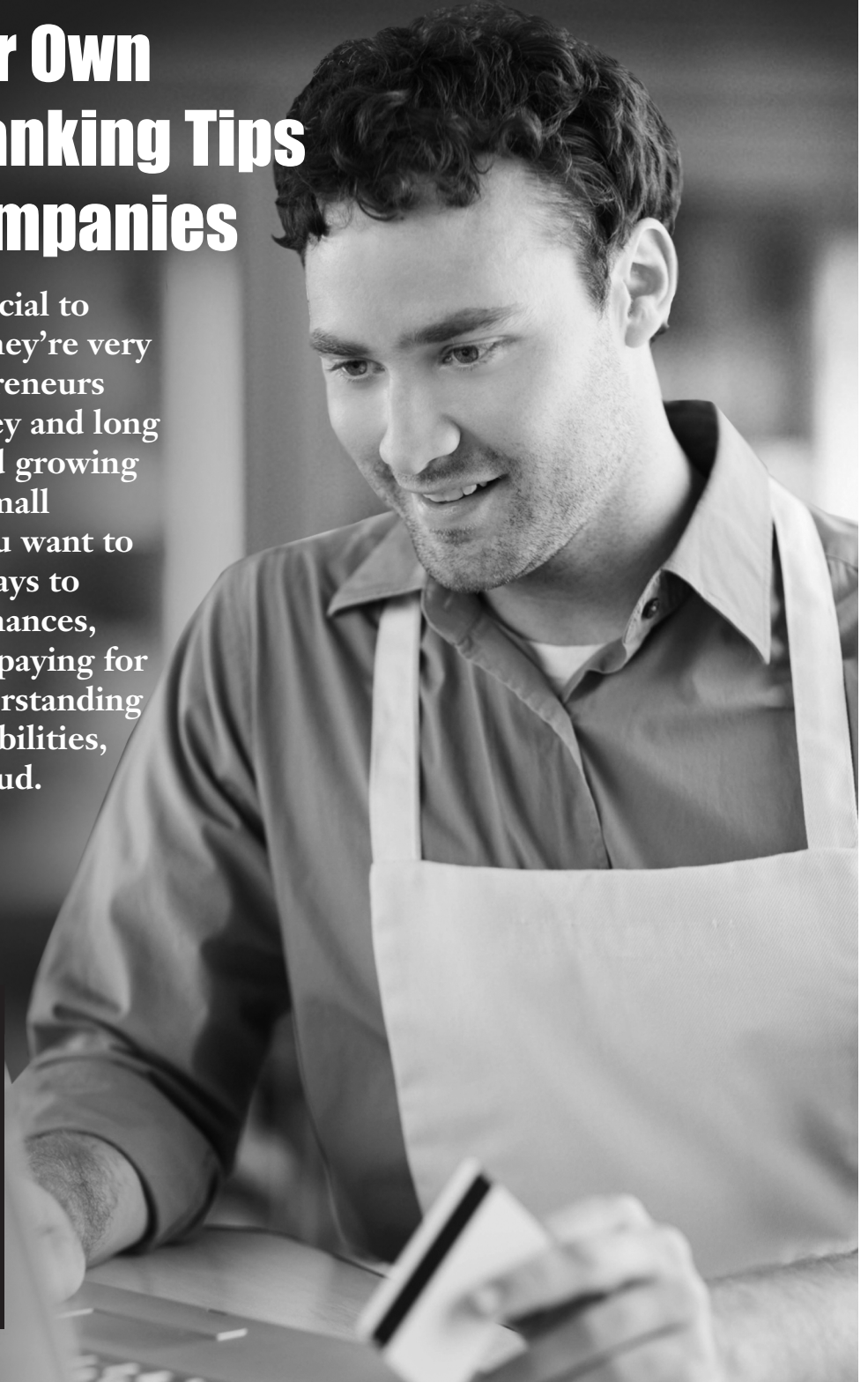
# FDIC *Consumer News*

## **Minding Your Own Business: Banking Tips for Small Companies**

Small businesses are crucial to the U.S. economy and they're very important to the entrepreneurs who put their own money and long hours into operating and growing a company. If you're a small business owner — or you want to be — read our tips on ways to handle your business' finances, including getting loans, paying for everyday expenses, understanding your rights and responsibilities, and guarding against fraud.

### **ALSO INSIDE**

- **How to protect the elderly from financial abuse**
- **Tips for consumers turned down for a checking account**
- **Prepare for federal benefit checks to be replaced by direct deposit**



## Loans to Start and Grow a Small Business: Finding What's Right for You

Small business owners typically need to borrow money to buy equipment, pay suppliers and employees, and otherwise finance their operations. To help you get a loan that fits your needs, here are some basics to consider:

**Comparison shop for government-guaranteed loans that may be offered by your bank and a few other financial institutions serving your community.** The U.S. Small Business Administration backs a certain portion of loans to help borrowers qualify for attractive financing terms. If you need a loan for less than the lender's minimum amount, ask your bank for a referral to a lender participating in the SBA's microloan program, which combines business coaching and technical assistance with access to loans up to \$50,000 (although the average loan amount is about \$13,000). Also be aware that certain borrowers, such as veterans or victims of disasters, may be eligible for special loan programs.

**Understand the different types of financing.** For most small businesses, there are three key ways to finance operations (not including investments or loans from family and friends):

- *Personal lines of credit*, such as credit cards (either an owner's personal card or a business card guaranteed by the owner) or home equity lines of credit (the small business owner's home serves as the collateral) are commonly used, but there are risks.

"Small business owners willing to put their personal credit record on the line may find a credit card convenient, but it can be an expensive financing tool," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. "Owners using a credit card also can quickly find themselves taking on debt that cannot reasonably be supported by projected revenues from the business."

He added that one problem with home equity lines is "the potential to lose your home if you are unable to repay funds as agreed." (Also see concerns about "frozen" or reduced home equity lines on Page 5.)

- *Business lines of credit*, which provide a convenient way for a business to borrow up to a certain dollar amount and repay it in installments with interest over several years, also present risks. "Business owners should think carefully before borrowing on a line of credit," said Mary Bass, a Senior Community Affairs Specialist with the FDIC. "Consider how and when the business will generate revenue to repay the loan, and make sure you aren't using a short-term financing tool to finance costly, long-term investments."

- *Business term loans*, which establish a set dollar amount to be repaid in installments over three or more years, are commonly recommended for purposes such as financing the purchase of equipment or a vehicle. These loans often are secured by



the asset that is purchased. "Term loans mean predictable payments for businesses, but unlike lines of credit, a business may have to make a new application if it needs to borrow additional funds," explained Emerson Hall, an FDIC Community Affairs Specialist.

**You can improve your chances of getting a good loan.** Start by having a well-prepared business plan showing how money will be earned, which can reassure lenders that a loan will be repaid.

For more tips, see the Winter 2010/2011 *FDIC Consumer News* (online at [www.fdic.gov/consumers/consumer/news/cnwin1011/smallbusiness.html](http://www.fdic.gov/consumers/consumer/news/cnwin1011/smallbusiness.html)). Also check out additional resources from the SBA, the FDIC and other organizations in the box on Page 5. 📖

## Paying for Everyday Expenses: Understand the Rules

### Business credit, debit cards carry fewer protections than those for consumers

Small businesses face many everyday expenses, from office supplies to travel. To determine how to pay these expenses, you should understand that the rules governing each form of payment differ and can affect your liability for unauthorized use. Business owners also should be aware that some consumer protections they have come to expect do not necessarily apply to businesses. Here are a few things to consider when choosing a payment method:

#### Credit Cards

Credit cards are a convenient option because they allow you to defer payment — that is, you will be using the card issuer's money, not your own, until you pay off the balance.

Choose a credit card after carefully evaluating the interest rate, fees and terms. Depending on the card, it may also offer rewards. Then you should pay your card bill on time to build your company's credit record.

You should also be aware of the potential differences between credit cards issued primarily for consumer use (for personal, family or household purposes, even if you occasionally use them for business purchases) and credit cards issued primarily for corporate, small business or other professional use (even if occasionally used for personal purchases).

Consumer credit cards carry protections for the cardholder under the federal Truth in Lending Act

(TILA) that are not required for business cards. Those include new limits on issuer-imposed penalty fees on consumers (including late payment fees and over-the-limit fees) and certain changes in account terms. “Some card issuers may voluntarily extend some or all of these consumer protections to business cardholders, but they’re not required to, so look carefully at the terms and conditions you’d be agreeing to,” said Elizabeth Khalil, a Senior Policy Analyst in the FDIC’s Division of Depositor and Consumer Protection.

Also understand that your liability for unauthorized use by a thief can be greater for business credit cards than for consumer credit cards. Under federal regulations implementing the TILA, there are strict limits on a consumer’s liability for unauthorized transactions: generally, no more than \$50. By contrast, if a card issuer provides 10 or more credit cards to a company for employee use, it may require the business to assume *unlimited* liability for unauthorized transactions. And if fewer than 10 credit cards are issued to the company, the \$50 limit will apply for unauthorized use by someone other than an employee. However, if an employee is the culprit, the rules set no restriction on the potential liability for the employee or the corporation.

The bottom line: “Read all the literature and be careful what you do because the protections for business credit cards are very different from consumer cards,” said Khalil.

### Debit Cards and Checks

If you don’t want to incur debt in making payments, accessing a checking account using a debit card or check is another option.

As is the case with credit cards, consumers have more protections than businesses do for debit cards. Federal law provides many protections to consumer holders of debit cards — such as limitations on liability if the card is lost or stolen — but not to business account holders. While business credit cards can have some of

these protections, business debit cards have none.

“Because federal law doesn’t protect business debit cards, it’s very important to understand the terms of your bank account agreement regarding liability for unauthorized transactions,” said Evelyn Manley, an FDIC Senior Consumer Affairs Specialist. She said that state laws regarding commercial transactions may provide some protections, so consider asking an attorney for further information.

It’s also important to know that the rules governing checks depend largely on the law of your state and can vary from those governing debit card transactions. For example, many states have adopted the Uniform

Commercial Code, which generally holds the bank — not the account owner — liable if someone forges a signature on a check. But that doesn’t mean you could never be liable for losses. In general, you can protect yourself from liability by securing your checks, thinking carefully about who in your business has access to blank checks, reviewing your statements when they arrive (or more frequently via online access), and reporting any problems to your bank immediately. Your deposit account agreement may include more information about your liability for forged checks, so read it closely.

And for legal advice on the issues discussed here, ask an attorney. 🏠

## The Basics of Accepting Money from the Public

As a small business, you’ve also got to think about how you will get paid. And when deciding which payment methods to accept besides cash, you should be aware of the costs and benefits, the different responsibilities connected to each (including privacy and data security requirements), and the protections that will cover your customers. Key examples follow.

**Credit and Debit Cards:** When you accept credit or debit cards, you’ll work with a bank that will give you access to the card network payment system. That bank also will oversee your compliance with rules from the card networks themselves (such as Visa, MasterCard and American Express) that govern many different aspects of your card acceptance.

Recent rule changes made by the Federal Reserve Board under the Dodd-Frank financial reform law also limit the “interchange” (transaction) fees that large debit card issuers can charge to merchants. This means merchants like you may pay lower fees for debit card transactions than for credit cards. Also, merchants might be charged lower fees when accepting debit cards from larger debit card issuers than smaller ones.

**Checks:** In addition to the old-fashioned ways of depositing paper checks, you may be able to scan and deposit them to your bank account remotely. You can also initiate one-time or recurring debits from a customer’s checking account.

**Mobile Payments:** “Mobile wallets” allow consumers to make payments using accounts — including traditional credit or debit cards — linked to a smartphone without using the actual plastic card. Along with the investment in equipment that would be needed to accept mobile payments, you’ll also need to consider issues such as data security. Mobile payments also may mean dealing with companies other than card networks, which in turn may mean agreeing to different or additional terms for accepting mobile payments.

To learn more, start by familiarizing yourself with rules and procedures from your bank, Visa, MasterCard, PayPal and other payment companies you may use. Some of those requirements may be imposed by federal law, others by state law, and others by industry requirements. 🏠



## Frauds Target Small Businesses: Don't Be a Victim

While large firms may have sophisticated technology and staff dedicated to thwarting crime, many small businesses don't — and scammers know this. Here are ways to protect yourself:

### Be on guard against inside jobs.

This includes employee theft or misuse of cash, merchandise or equipment as well as fraud. "Minimize risks through steps such as pre-employment background checks, automated inventory tracking systems, audits, and clearly outlined policies for personal use of computers and other business equipment," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. "Also, carefully select who handles revenue from customers, pays the bills and reviews account statements. And, ensure that there are procedures in place to detect and deter fraud."

**Watch out for fraudulent transactions and bills.** Scams can range from consumer payments with a worthless check or a fake credit or debit card to fraudulent returns of merchandise. Be sure you have insurance to protect against risks. Also ignore offers to buy lists of federal grant programs. To learn more about protecting your business, consult your local Small Business Administration District Office ([www.sba.gov/content/find-local-sba-office](http://www.sba.gov/content/find-local-sba-office)).

**Electronic frauds by third parties can be very costly to businesses, so take them seriously.** The FDIC has seen an increase in reports of unauthorized electronic transfers made from bank accounts held by small businesses. "The most common and dangerous scam for small businesses is account takeover," said Michael Benardo, Chief of the FDIC's Cyber-Fraud and Financial Crimes Section. "By sending fake e-mails and using fake Web sites to deliver malicious software, such as keystroke loggers, fraudsters may be able to obtain the IDs and passwords for online bank accounts and then make withdrawals from accounts."

Because businesses are generally not covered by federal consumer protections against unauthorized electronic fund transfers, a bank likely will not be responsible for reimbursing losses associated with the theft from the account if it says that negligence on the part of the business, such as falling for a common scam, was a factor.

Also equip your computers with up-to-date anti-virus software and firewalls (to block unwanted access). Make backup copies of critical business data on every computer. Also monitor account balances regularly, perhaps daily, to look for suspicious or unauthorized activity.

And, don't click on links in or attachments to an unsolicited e-mail that asks for confidential information, even if it appears to be from a company you do business with or the government. Legitimate organizations won't request that kind of information in an e-mail. When in doubt, go to another source to find the organization's contact information so you can independently confirm the validity of the request.

To check out a variety of frauds targeting small businesses and what you can do to stop them, visit the scam alert page at [www.usa.gov/topics/consumer/scams-fraud/business/small-business-scams.shtml](http://www.usa.gov/topics/consumer/scams-fraud/business/small-business-scams.shtml). 🏠

## Your Deposits: Options for Small Businesses

### Earn interest on checking accounts.

As of July 21, 2011, a federal prohibition against the payment of interest on business checking accounts was repealed. As a result, corporations and partnerships can now have interest-bearing checking accounts that are insured for up to a total of \$250,000 combined with any other interest-bearing deposits the business may have at the same bank, including certificates of deposit (CDs), savings accounts and money market deposit accounts. Also remember that the deposits of a sole proprietorship — an unincorporated business owned by one individual using a business name — continue to be insured together with any personal funds the owner may have at the same bank, up to \$250,000 in total.

**Obtain unlimited insurance coverage on certain deposits through the end of 2012.** Martin Becker, an FDIC Senior Deposit Insurance Specialist, advises that if a small business has significantly more cash on hand than \$250,000 and it wants to have 100 percent of the funds fully insured by the FDIC, it can open a "noninterest-bearing transaction account" (a checking account that cannot pay interest) and have unlimited insurance protection on that account through December 31, 2012. This temporary,



unlimited deposit insurance coverage is based on a provision of the Dodd-Frank financial reform law of 2010. (While these transaction accounts are primarily used by businesses with large balances in their checking accounts, any depositor qualifies.)

**Save for retirement.** There are a variety of options for the personal funds of a small business owner — from IRAs and SEPs to 401(k)s — that can be used to save for retirement and save on taxes. The Fall 2011 *FDIC Consumer News* featured an article on the different ways a small business owner can save for retirement (online at [www.fdic.gov/consumers/consumer/news/cnfall11/retirementaccounts.html](http://www.fdic.gov/consumers/consumer/news/cnfall11/retirementaccounts.html)).

To learn more about the deposit insurance coverage of business and personal accounts, see the FDIC resources in the box on the next page. 🏠

## Common Questions to the FDIC from Small Businesses

### What did the Small Business Jobs Act of 2010 do to increase lending?

The new law enhanced certain Small Business Administration (SBA) loans and created other opportunities for borrowers. For example, it permanently increased maximum loan amounts for some SBA loan programs and allowed some small businesses to refinance mortgages on their owner-occupied commercial real estate (through September 2012). For more information on the new loan provisions, go to [www.sba.gov/content/small-business-jobs-act-2010](http://www.sba.gov/content/small-business-jobs-act-2010). For more about SBA loans, go to [www.sba.gov/content/search-business-loans-grants-and-financing](http://www.sba.gov/content/search-business-loans-grants-and-financing).

In addition, the law created the Small Business Lending Fund at the U.S. Treasury Department to provide capital for loans from qualified “community” banks. To find participating banks near you and learn more about Treasury programs for small businesses, see the box on the right.

### The bank “froze” (or reduced) my home equity line of credit, which I rely on to operate my small business. What can I do?

A home equity line of credit is a loan with an established credit limit that the borrower may draw on at any time — similar to a credit card — that uses the borrower’s home as collateral. Banks can “freeze” (suspend) access to a home equity line or reduce the credit limit in certain situations — for instance, if the value of your home declines significantly below the appraised value or if the bank reasonably believes you will be unable to make payments because of a drastic change in your financial circumstances. However, the lender’s action must be in compliance with applicable federal and state laws.

“Banks will typically consider reinstating credit once the issue that caused the freeze or reduction is cleared up, so you should notify the bank of any positive developments,” said Susan Boenau, Chief of the FDIC’s

Consumer Affairs Section. “You also may be able to find another bank willing to provide you with a home equity line of credit, so it doesn’t hurt to shop around.”

For more information, see the Summer 2008 *FDIC Consumer News* ([www.fdic.gov/consumers/consumer/news/cnsum08/tips.html](http://www.fdic.gov/consumers/consumer/news/cnsum08/tips.html)).

### My bank says that government regulations are an obstacle to getting my small business loan renewed. Is that true?

First, remember that the FDIC and other regulators encourage financial institutions to meet the credit needs of their creditworthy customers. Although banks do set their own lending policies and procedures, they must comply with federal and state laws and regulations. For example, a bank may lower the credit limit on a home equity line as long as it meets the legal requirements to do so. If your current bank’s revised loan-approval guidelines make it difficult for you to qualify for a loan renewal, you may want to check with other banks to see if they can offer you a loan that suits your needs.

### What can I do if there is an unauthorized electronic transfer out of my business checking account?

While the Electronic Fund Transfer Act and its implementing regulations limit liability for fraud, theft or other unauthorized transactions involving personal (consumer) accounts, these protections do *not* apply to business accounts. “If you believe money was wrongfully debited from your business account, notify your bank immediately and ask what its policy is,” said Heather St. Germain, an FDIC Consumer Affairs Specialist. “Although federal law does not safeguard business accounts like it does consumer accounts, state laws, industry standards and your deposit agreements may provide certain protections.”

*To call or e-mail the FDIC with questions or concerns, see the box on the right. 🏠*

## More Help for Small Businesses

**The U.S. Small Business Administration (SBA)** provides loan guarantees, referrals to local free or low-cost counseling and training, tips on how to write a business plan, and other support for small businesses. For more information, call the SBA toll-free at 1-800-827-5722, go to [www.sba.gov](http://www.sba.gov) or contact the SBA District Office in your area.

**The Federal Deposit Insurance Corporation** has a toll-free hotline (1-855-FDIC-BIZ, which is 1-855-334-2249) to respond to questions or concerns about credit availability for small businesses. We also have useful information at [www.fdic.gov/smallbusiness](http://www.fdic.gov/smallbusiness) (including an online form to ask the FDIC a question or register a concern) and at [www.fdic.gov/about/diversity/sbrp](http://www.fdic.gov/about/diversity/sbrp). For information on FDIC deposit insurance coverage or other matters of interest, start at [www.fdic.gov](http://www.fdic.gov) or call toll-free 1-877-ASK-FDIC (1-877-275-3342). Also watch for a new FDIC financial education curriculum for small business owners ([www.fdic.gov/moneysmart](http://www.fdic.gov/moneysmart)).

**Other federal agencies** also have resources to help small businesses. For example, the U.S. Treasury Department oversees several programs, including the Small Business Lending Fund, which was created by Congress in 2010 for use by small “community” banks (start at [www.treasury.gov/resource-center/sb-programs/Pages/default.aspx](http://www.treasury.gov/resource-center/sb-programs/Pages/default.aspx)). For more help or information from the federal government, search by topic at [www.mymoney.gov](http://www.mymoney.gov) or call 1-888-MYMONEY (1-888-696-6639).

**Your state, county or city government** may offer its own financial aid packages and referrals to other sources of assistance.

**Your bank and other financial institutions in your area** may offer services for small businesses and useful information. 🏠

## Fraud Against the Elderly: How You Can Spot and Prevent Financial Abuse

Each year millions of senior citizens are victimized by financial fraud or theft of money, property or valuable personal information. Often, an adult child or other relative is responsible. Other situations may involve trusted individuals such as caregivers, legal guardians, investment advisors or new “friends.” And because the types of abuse may differ widely, it’s important to take a variety of precautions. Here are suggestions for protecting yourself and your loved ones:

**Choose an advisor carefully.** If you’re considering hiring a new broker, attorney, accountant or other professional, even someone recommended by a friend or relative, it’s best to independently look into that person’s background and reputation before investing money or paying for services. For example, you can confirm that this person is properly registered or licensed and has a clean record with regulators and other consumers. When in doubt about how to research this information, ask your state Attorney General’s office or local consumer protection agency for guidance.

Make sure you not only understand the role an advisor will be playing, but trust that this individual will do what’s best for you and your finances. Don’t be afraid to ask questions or say no. After all, it’s your money!

**Be careful with powers of attorney.** At some point, you may want to have a power of attorney, a legal document that authorizes another person to transact business on your behalf. While powers of attorney can be very helpful, be careful who you name as your representative. “Powers of attorney can be easily misused because they allow the appointed person to step into your shoes and do everything you can do, including taking money from your account and borrowing money in your name,” warned Debi Hodes, an FDIC Consumer Affairs Specialist. “This is a matter to discuss with a lawyer who should prepare or review the document for you.”

**Protect your personal financial information.** Never give out your bank account numbers, Social Security numbers, PINs (personal identification numbers), passwords or other sensitive information unless you initiate the contact. These requests may come from an unsolicited phone caller, letter writer, e-mailer or a person who shows up at your door. Be especially wary of someone who congratulates you about winning a (bogus) prize or lottery but first demands payment for taxes or other fees.

Also, keep your checkbook, account statements, and other sensitive information in a safe place. And shred paper documents containing sensitive information that is no longer needed.

**Closely monitor your credit card and bank account activity.** Review your account statements as soon as you receive them and look for unauthorized or suspicious transactions, which should be reported to your bank immediately.

**Take your time when deciding on a major financial decision or investment.** Make sure you understand the transaction and ask questions if you don’t. If you need to, ask a lawyer or financial advisor to help you understand the documents and discuss what’s best for you. “Walk away from anyone who says you must make a decision or otherwise do something *right now*,” said Hodes.

**Be aware of scams involving reverse mortgages.** These loans enable homeowners age 62 or older to borrow money from the equity in their homes. However, reverse mortgages can be complex products with a variety of risks and costs, and there are many reports of schemes by unscrupulous individuals using deceptive offers and high-pressure tactics to steer senior citizens into using the funds from a reverse mortgage for inappropriate or costly loans or investments. For guidance on the responsible use of a reverse mortgage, including how to locate a lender or a housing counselor approved by the U.S. Department of

Housing and Urban Development’s Federal Housing Administration, start at [www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm) or call 1-800-569-4287.

Finally, here are additional tips:

- Beware of callers asking for money or information. If you’d like to reduce the number of telemarketing calls you receive, consider signing up for the national Do Not Call Registry (call 1-888-382-1222 or visit [www.donotcall.gov](http://www.donotcall.gov)). If you are on this list, be suspicious of calls from any company or organization that you have reason to believe is not eligible to contact you under the registry’s rules.
- Don’t comply with requests from strangers to deposit a check into your account (perhaps as part of an Internet sale) and wire some or all of it back. “If you send the money and the check is counterfeit, you may be held responsible by your financial institution for the losses,” said Michael Benardo, Chief of the FDIC’s Cyber-Fraud and Financial Crimes Section.
- If you use social media, many security experts advise against posting the names of relatives and anyone’s home address, full date of birth and daily activities because those can be valuable to a thief. “A scam on the rise involves con artists who look for personal information on the Internet that they can use to call or e-mail an elderly person and pretend to be a relative in distress — such as a grandchild being injured, in jail or lost in a foreign country — and needing money sent fast, without telling anyone else in the family,” added Benardo. “They may also represent themselves as a lawyer or law enforcement agent needing money to help your relative.”

To learn more about common frauds targeting seniors, start at the FBI’s Web page at [www.fbi.gov/scams-safety/fraud/seniors](http://www.fbi.gov/scams-safety/fraud/seniors). For more guidance on protecting against a variety of schemes, see back issues of *FDIC Consumer News* (online at [www.fdic.gov/consumernews](http://www.fdic.gov/consumernews)) and visit [www.mymoney.gov/category/topics/scams/-fraud.html](http://www.mymoney.gov/category/topics/scams/-fraud.html). 🏠



# Have You Bounced Yourself Out of a Checking Account?

## How you can re-establish or maintain an account

Have you tried to open a checking account and been turned down? Or, did your bank close your account? If so, you're not alone — and it's important to understand why this can happen, and what you can do about it.

Consumers who frequently write bad checks or otherwise overdraw their account may find that their bank or credit union decides to close their account. In fact, between 2000 and 2005, financial institutions closed roughly 30 million checking accounts for these reasons, according to a 2008 Harvard Business School report.

You also may have trouble opening a new checking account elsewhere if your financial institution sent your name to a consumer reporting service that keeps track of negative information relating to how consumers use their deposit accounts, such as writing bad checks to merchants or having a checking account closed because of mismanagement. (The consumer reporting service receiving the information most likely will be ChexSystems, the dominant company in this field.)

Under the Fair Credit Reporting Act, a bounced check or other covered problem reported to a consumer reporting agency may stay on your record for as many as seven years. "Being on a check reporting system's list means you may have a hard time opening a checking account for quite a while," said Luke Brown, an Associate Director in the FDIC's Depositor and Consumer Protection Division.

What steps can you take to fix an existing problem with your record? First, you can order a free copy of a report on you, if there is one. (To request a copy of a ChexSystems report and learn more from that company, go to [www.consumerdebit.com](http://www.consumerdebit.com) or call 1-800-428-9623.)

"You should review the report and dispute any incorrect information," advised Luke W. Reynolds, the FDIC's

Chief of Program Development and Outreach. He also said to beware of companies that promise they will clean up your record for a fee. "There's no quick fix for negative information that's legitimately reported to a consumer reporting service," he added.

Above all, don't give up on obtaining a traditional checking account. "There are banks and credit unions that are willing to open federally insured accounts to people who had trouble managing their accounts in the past," Reynolds said. "These are often called 'second chance' checking accounts, but be sure to carefully evaluate the terms of any account, including any fees you'll have to pay and any conditions you may have to meet."

Reynolds also suggests going back to the institution that closed your account to see if it will give you the opportunity to open another account. And if you do obtain a new deposit account, whether at that institution or another one, work hard to use that account properly.

What can consumers do to avoid getting into this predicament? Use your checking account responsibly. That includes closely monitoring what money goes into and out of your account, including deposits, fees, debit card transactions, automatic payments and other withdrawals.

For tips on how to manage a checking account, go to [www.fdic.gov](http://www.fdic.gov) and search for articles in *FDIC Consumer News* and other material, including the FDIC brochure "Your Guide to Preventing and Managing Overdraft Fees." 🏠

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***To avoid mismanaging a checking account, closely monitor what money goes in and out, including deposits, debit card transactions and automatic payments.***

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## **FDIC** *Consumer News*

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### **For More Help or Information**

Go to [www.fdic.gov](http://www.fdic.gov) or call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342)

## Direct Deposit Replacing Federal Benefit Checks

If you receive federal benefit payments such as Social Security or other government pensions — or you will soon — it's time to stop looking forward to your check in the mail and start planning for direct deposit. That's because the U.S. Department of the Treasury is phasing out paper checks for federal benefits in favor of all-electronic delivery via direct deposit by March 1, 2013.

The Treasury Department says the change will benefit consumers because electronic payments are safer, easier and more reliable than paper checks. In addition, those who use direct deposit can rest more easily knowing that their funds will appear in their bank account sooner than if they received a paper check.

What does this mean for you?

- *If you have not yet applied for federal benefits*, when you do apply you must receive the funds electronically. That requirement began for new recipients on May 1, 2011.
- *If you already have your federal benefits direct-deposited into a bank account*, the Treasury Department's change will not affect you.

- *If you currently receive your benefits via paper check*, you must switch to an electronic payment by March 1, 2013. To start, you need to provide the routing number for your bank (ask a customer service representative if you need to) and your account number. If you do not select an electronic payment option by March 1, 2013, you will receive your benefits on the Direct Express® card, a prepaid debit card that can be used to pay for purchases and access cash at ATMs.

If you don't have a bank account and your funds are direct-deposited onto a prepaid card (also known as a stored value card) instead of a bank account, recognize that the card has potential benefits as well as potential costs and concerns, including the inability to build a relationship with a local financial institution that can be handy if you need other bank services. Now is a good time to look for a low- or no-cost checking or savings account. Also, some financial institutions will waive fees for customers who have regular direct deposits.

For tips on shopping for a bank account, see the Spring 2011 *FDIC Consumer News* (online at [www.fdic.gov/consumers/consumer/news/cnspr11](http://www.fdic.gov/consumers/consumer/news/cnspr11)).

[www.fdic.gov/consumers/consumer/news/cnspr11](http://www.fdic.gov/consumers/consumer/news/cnspr11)). To learn more about the Direct Express® card and the new rules, call the Treasury Department's toll-free helpline at 1-800-333-1795 or visit [www.GoDirect.org](http://www.GoDirect.org). ■

### Foreclosure Settlement Reached

On February 9, 2012, government officials announced a settlement with several major mortgage lenders over questionable foreclosure practices. Borrowers eligible for relief will receive a letter later this year. Learn more at [nationalmortgagesettlement.com](http://nationalmortgagesettlement.com).

If you are have trouble making your mortgage payment, contact your loan servicer and consider seeking help from a reputable counseling agency as soon as possible to discuss your options. Also, be on guard against criminals charging upfront fees and falsely "guaranteeing" to rescue a home from foreclosure under the government settlement or any other situation. For more guidance, see tips from the FDIC at [www.fdic.gov/consumers/loans/prevention/toolkit.htm](http://www.fdic.gov/consumers/loans/prevention/toolkit.htm).



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