FDIC Consumer News

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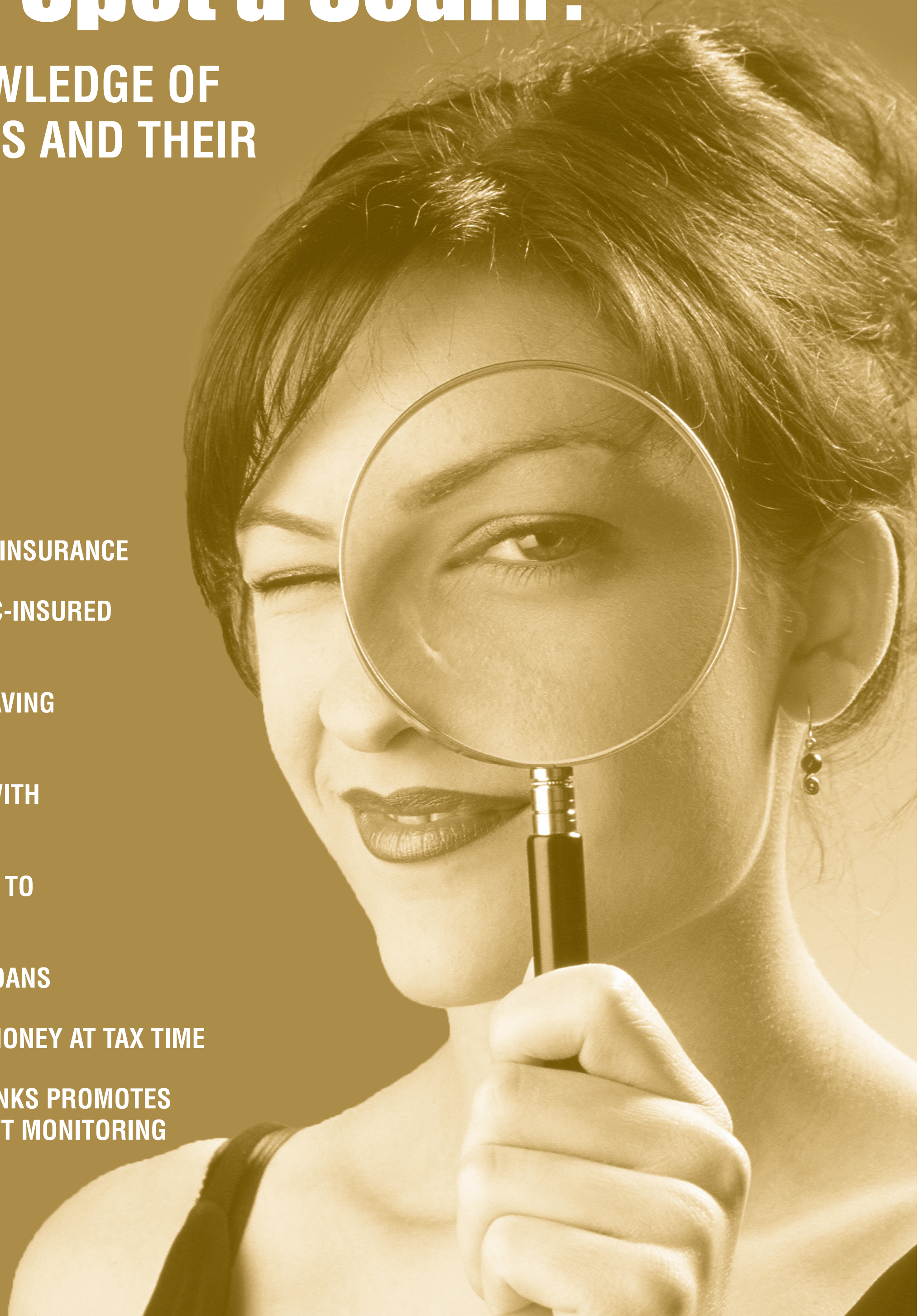
Can You Spot a Scam?

TEST YOUR KNOWLEDGE OF COMMON FRAUDS AND THEIR WARNING SIGNS



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Can You Spot a Scam?

Test your knowledge of common frauds and their warning signs by taking our quiz

Con artists are very good at tricking consumers into parting with money or divulging personal information that can be used to steal funds or run up thousands of dollars in fraudulent credit card charges. How good are YOU at telling a scam from a legitimate offer or advertisement?

FDIC Consumer News frequently publishes articles about common frauds to avoid, but here we want to put your knowledge to the test. The answers start on the next page.

1 You agree to sell your valuable collection of superhero comic books from the 1960s to a complete stranger who mails you a cashier's check. Because you want to be sure the check is "good" before you part with your prized possessions, you should:

(a) Confirm that the dollar amount and your name on the check are correct. Apart from that, cashier's checks are always safe to accept.

(b) Deposit the check into your bank account and wait at least two business days before letting go of the items.

(c) Contact the bank that issued the cashier's check to make sure the check is legitimate.

2 You agree to rent your vacation house to a far-away stranger who sends you a check as a deposit, but when the check arrives, it's for more money than you agreed upon. The person apologizes and asks you to deposit the check and wire back the difference. This is:

(a) Safe for you to do because you'll be depositing a check for more money than you expected anyway.

(b) Safe for you to do because, if there's a problem, money sent by wire is very easy to recover.

(c) Likely to be a scam.

3 You post your resume on a Web site for job seekers and soon you receive an offer to work at home. The deal could be a scam if you are:

(a) Promised a lot of money for doing very little work.

(b) Asked as part of the job application for your bank account and Social Security numbers.

(c) Told you will "process payments" for a foreign company.

(d) All of the above.

4 You've just realized that your ATM/debit card has been lost or stolen. To get the maximum legal protection against losses from unauthorized withdrawals, you should notify your bank:

(a) Within two business days of discovering the card missing.

(b) Within 10 business days.

(c) Before your next statement arrives, even if that is weeks later.

5 A company offering to rescue your home from foreclosure may be running a scam if it:

(a) Says it will stop the foreclosure from taking place.

(b) Suggests that you transfer ownership of the home to the company so you can rent and buy the property back from them.

(c) Advises you to stop talking to your lender, lawyer or housing counselor.

(d) All of the above.

6 If you get an e-mail from a federal government agency such as the IRS or the FDIC asking you to confirm or verify personal financial information, it's always safe to do so.

(a) True.

(b) False.

7 Your credit report may suggest that you have been a victim of identity theft if it shows:

(a) You have a credit card, loan or lease in your name that you know you don't have.

(b) A company you never tried to do business with has requested a copy of your credit report.

(c) A home address for you that you never had.

(d) All of the above.

Answers on the next page

QUIZ ANSWERS

1(c) There's been explosive growth in all forms of counterfeit checks, including cashier's checks. Crooks also know that consumers trust cashier's checks, money orders and other official checks.

Although federal rules require that the funds from most deposited checks be available for withdrawal within two business days (unless the bank provides a written notice to the contrary), that does not mean there isn't a problem. If you simply deposit the check into your account and a week later it is returned unpaid, your bank will deduct from your account the original deposit amount, even if you've already spent the money, and you could also be held responsible for any fees triggered by your reduced account balance. Not only that, you will no longer have your valuable collection of comic books.

So, when presented with a cashier's check by a stranger, "you need to confirm that the check is legitimate," said Michael Benardo, Chief of the FDIC's Cyber-Fraud and Financial Crimes Section. He says that your best strategy is to contact the bank the check is drawn on or take the check to your bank's branch manager (to contact the other bank on your behalf) to have the check authenticated. You can also ask how to safely proceed.

For more tips on avoiding scams involving fraudulent checks, see the Winter 2006/2007 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnwin0607/scams.html). Also visit www.fakechecks.org, a Web site from the National Consumers League in collaboration with the U.S. Postal Inspection Service and private organizations.

2(c) "Be suspicious any time you receive a check for more money than you are due," warned Benardo. "And be especially skeptical if you're asked to deposit the money and wire back some or all of it, because if you comply and the check is fraudulent, the scam artist will have your payment and you'll probably owe your bank the amount you took out of your account."

Benardo also explained that money sent by wire is very difficult, if not impossible, to get back. "Wired funds move instantaneously and the criminals can be waiting on the receiving end to make a quick cash withdrawal," he said. "Before you know it, the crooks and the cash will be long gone and they'll both be very hard to find."

See the article about fraudulent checks mentioned above from the Winter 2006/2007 ***FDIC Consumer News*** issue and www.fakechecks.org for more information.

3(d) Thieves prey on individuals who have lost their jobs or need extra cash by offering attractive, but bogus, opportunities to work at home. Their goals include tricking victims into divulging personal or financial information (such as bank account and Social Security numbers), sending money (perhaps for supplies that will not arrive) or wiring funds from their account (similar to what we described in the answer to question #2 about checks for more than is due followed by requests to transfer money).

One variation on the work-at-home fraud is the "mystery shopper" scam. This involves fake part-time jobs evaluating retailers' products and/or money-transfer services. As a result, they require recruits to wire money from their own checking accounts.

Another is an offer to serve as a money transfer agent — someone who would collect electronic payments in his or her bank account and wire the money overseas after deducting a "commission." In many cases, the incoming payments are unauthorized electronic withdrawals from other peoples' bank accounts. If you participate in this activity, you could be suspected of being part of a crime ring and charged with a crime.

"Steer clear of any offer to work at home if it involves processing checks or electronic payments," cautioned David Nelson, an FDIC fraud specialist. "Some payment-processing scams involve realistic-looking employment applications, contracts, written procedures, and even Web sites with payment-tracking software."

To learn more, see our article on financial scams in the Winter 2008/2009 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnwin0809/scams.html).

4(a) Under the Electronic Fund Transfer Act (EFTA), if your debit card or ATM card is lost or stolen, your maximum liability is limited to $50 if you notify your bank within two business days of discovering that the card is missing. If you wait more than two business days but no more than 60 days after receiving a bank statement that includes an unauthorized transfer, you could be liable for losses up to $500. But if you wait longer than that, the law doesn't require your bank to reimburse you for any unauthorized transfers made after the 60-day period, even if that would clean out your account. Note: After you report a lost or stolen card, under most circumstances you will limit your liability for unauthorized transactions from that point on.

However, to promote the worry-free use of debit cards and ATMs, some banks may voluntarily waive all liability for unauthorized transactions if the cardholder took reasonable care to avoid fraud or theft, but consumers must still report errors promptly.

A good rule of thumb is to review your checking account and credit card statements promptly and report unauthorized transactions to your bank as soon as possible. While you may have time under the law to report a suspicious transaction and limit your liability, you should always try to nip these problems in the bud. The sooner you act, the faster your bank and law enforcement authorities can help keep you and other consumers from being victims.

Even a very small unauthorized transaction should immediately be reported to your bank or credit card company. "A major fraud could begin with small purchases as a test," said

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Benardo. "If that small transaction goes through without being rejected by the bank's computer system, it may be followed by multiple transactions that can clean out a checking account."

In one recent case, the Federal Trade Commission (FTC) charged identity thieves with placing more than $10 million in bogus charges on consumers' credit and debit cards in amounts ranging from 20 cents to $10. "Most consumers either didn't notice the charges on their bills or didn't seek chargebacks because of the small amounts," the FTC said.

To learn more about the consumer protections for debit cards and credit cards, see the Fall 2009 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnfall09/debit_vs_credit.html). To learn more about avoiding identity theft, visit www.ftc.gov/idtheft.

5(d) Many homeowners having difficulty making their monthly mortgage payments are being targeted by criminals who falsely claim they can rescue a home from foreclosure, then charge large upfront fees and fail to deliver on their promises. In some of the worst cases, homeowners are tricked into signing away their ownership of a house.

If you're having trouble paying your mortgage, contact your lender or loan servicer immediately, perhaps with the help of a reputable housing counselor. If a company advises you to cut off communications with your lender or another advisor, that's another warning sign of a scam.

For additional guidance on mortgage rescue scams, see the FDIC's foreclosure prevention online toolkit (www.fdic.gov/consumers/loans/prevention/toolkit.html).

For information from the FTC on avoiding a variety of credit-related frauds, including foreclosure rescue scams, start at www.ftc.gov/credit. Credit-based scams on the Internet have grown so much that, for educational purposes, the FTC recently created a fake Web site at www.wemarket4u.net/esteemed for the fictional company Esteemed Lending Services. Anyone drawn in by the site's attractive offers of "guaranteed" loans is soon warned, "If you responded to an offer like this one, You Could Have Been SCAMMED!"

6(b) Just because an e-mail or Web site looks like what you'd expect from a government agency, convincing copycats are out there. Remember that the FDIC or another government agency (not to mention your bank or credit card company) would never contact you asking for personal information such as account numbers and online passwords and usernames.

"Cyber criminals also have gotten even sneakier by sending e-mails that appear to be from businesses or government agencies but contain attachments which, if opened, load spyware onto your computer and record your keystrokes and collect confidential account numbers and passwords," said Nelson. "Once the criminals have that information, they may make changes to your account information and transfer money out of your account."

For more information on protecting against crooks pretending to be legitimate organizations, see the Winter 2006/2007 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnwin0607/protect.html. To learn about safe online banking, bill paying and shopping, go to our Winter 2009/10 issue at www.fdic.gov/consumers/consumer/news/cnwin0910/online_banking.html. For additional guidance from the federal government on avoiding Internet fraud, see the box below.

7(d) There are many good reasons to frequently review your credit reports, and one is to look for warning signs that an identity thief has been or is trying to obtain loans or commit other fraud in your name. "The most important warning sign of ID theft in a credit report is a credit card, loan or lease in your name that you know nothing about," said Benardo. "Any one of these may indicate that someone has learned enough information about you to be able to steal your identity and conduct business acting as you."

Also pay close attention to the "inquiries" section of the report that shows who has requested a copy of your credit history. That's because thieves sometimes falsely claim to represent a company with a legitimate right to obtain credit reports and then use the information to commit fraud.

For more information on monitoring your credit report to help guard against ID theft, see the Winter 2002/2003 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnwin0203/monitoring.html). Also see FTC guidance on ordering and reviewing credit reports at www.ftc.gov/freereports.

For More Information on Avoiding Financial Fraud and Theft

The Federal Deposit Insurance Corporation publishes consumer brochures, alerts about fraudulent schemes, and ***FDIC Consumer News*** articles covering topics ranging from safe Internet banking to avoiding check frauds. Start at www.fdic.gov/quicklinks/consumers.html. You also can request paper copies of FDIC materials (including ***FDIC Consumer News*** articles mentioned here) from our Public Information Center (see Page 11).

Tips from a variety of government agencies appear on Web sites from MyMoney.gov (www.mymoney.gov/category/topics/scams/-fraud.html), the Financial Fraud Enforcement Task Force (www.stopfraud.gov/protect.html), and the U.S. Postal Inspection Service (www.deliveringtrust.com). To learn how to protect yourself on the Internet, check out www.onguardonline.gov and www.lookstoogoodtobetrue.com.

Having Difficulties Paying Your Mortgage? Pay Attention to These Tips

Mortgage payment problems and foreclosures continue to dominate the news. What should you do if you are having difficulty paying your mortgage? Here are reminders and updates from ***FDIC Consumer News,*** mostly about refinancing opportunities and loan modifications available through the federal government's "Making Home Affordable" program.

Ask your lender or loan servicer about options for avoiding foreclosure. "Inquire about your eligibility for the government program and the possibility of lowering your monthly payment by reducing the interest rate, extending the length of the loan or forgiving some of the principal," suggested Sam Frumkin, an FDIC Senior Policy Analyst.

If you think you need help working with your lender, contact a housing counselor approved by the U.S. Department of Housing and Urban Development (HUD). A trained, reputable, non-profit counseling agency will provide free or low-cost services. For a referral to a HUD-approved counselor, see the resources in the box on the right.

Beware of foreclosure rescue and loan modification scams. These frauds typically involve criminals who charge large upfront fees and falsely "guarantee" to rescue a home from foreclosure. Homeowners should avoid any company or individual who requires a fee in advance, "guarantees" to stop a foreclosure or modify a loan, or recommends to stop paying or speaking with the lender. In some cases, homeowners have lost their homes while waiting for results from con artists who had promised to help them. A new Federal Trade Commission rule prohibits these practices by nonbank providers of mortgage relief services.

The use of a HUD-approved housing counselor also can help you avoid foreclosure rescue scams.

If you think you're already caught up in a scam, alert the proper authorities (see the box on the right).

Learn more about the government's programs. Go to the Web site www.makinghomeaffordable.gov for detailed information. You can also learn more by speaking with your lender, loan servicer or housing counselor. The Web site can help you determine if you may be eligible, but only the servicer of your loan can tell you if you qualify. Here's a snapshot of the main programs:

• The Home Affordable Modification Program is designed to help as many as three to four million homeowners at risk of losing their homes by reducing the monthly payments on their mortgages.

• The Second Lien Modification Program enables homeowners to reduce the cost of their second mortgage if their first mortgage has already been modified under the Home Affordable Modification Program. Examples of second mortgages include some home equity loans and loans that homeowners may have taken to help with the down payment on their home.

• The Home Affordable Refinance Program is intended to help people who have been unable to refinance into mortgages with a lower interest rate because their homes have decreased in value.

• The Home Affordable Foreclosure Alternatives Program is designed for homeowners who can no longer afford to stay in their homes but want to avoid the stigma of foreclosure. This program is for people who agree to leave their property for more affordable housing after either selling the home for less than what they owe on their first mortgage or voluntarily transferring ownership to the loan servicer.

Foreclosure Prevention Resources

The federal government's "Making Home Affordable" program helps qualified homeowners modify or refinance their mortgage to make monthly payments more affordable. Visit www.makinghomeaffordable.gov.

A reputable, non-profit housing counselor can help you assess your financial situation and work with your lender or loan servicer to try to avoid foreclosure. For referrals to counselors approved by the U.S. Department of Housing and Urban Development (HUD), options include:

• HUD at 1-800-569-4287 or www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm;

• The Homeowner's HOPE Hotline at 1-888-995-4673 or www.995hope.org; and

• NeighborWorks America at www.findaforeclosurecounselor.org.

The FDIC's foreclosure prevention toolkit at www.fdic.gov/consumers/loans/prevention/toolkit.html provides quick access to resources that can help prevent unnecessary foreclosures and stop foreclosure rescue scams.

Law enforcement agencies you can contact if you think you're a scam victim include the Federal Trade Commission (1-877-FTC-HELP or www.ftccomplaintassistant.gov), your state Attorney General (www.naag.org/attorneys_general) or your state, county or city consumer protection office (www.consumeraction.gov/state.shtml). Also, consider contacting an attorney to help you sort through your options and attempt to undo any damage.

Weighed Down by Debt? Here are Ways to Ease the Load

If you're finding yourself overwhelmed by debt, it's crucial to find a solution. ***FDIC Consumer News*** offers a few tips for what to do.

Contact your lender immediately if you think you won't be able to make a loan payment. "Lenders generally prefer to work with customers to find a solution that benefits both parties, so ask for their help, preferably before you miss the payment," said Sukari Smith, an FDIC Community Affairs Specialist. This advice also applies to other bills, such as those from utility companies.

With your mortgage, it's especially important to contact your lender or its loan servicer quickly to ask what can be done to keep your home. "Programs exist to help homeowners with payment problems, but borrowers need to be proactive and reach out to their lender and respond to their requests for information," Smith added.

To learn more about refinancing and modifying a home loan, including guidance on how to get help from a housing counselor, see our article on Page 5.

Reputable credit counseling organizations can help you develop a personalized plan to solve money problems. The quality of these organizations can vary, so interview several, check their background (including contacting your state Attorney General's office or local consumer protection agency for complaints), get key details and costs in writing before signing a contract, and ask about any disadvantages to a proposed solution. For referrals to local counselors, see the box on the right.

Also be very careful of "debt settlement" companies that claim they can reduce what you owe for a fee. To curb certain deceptive and abusive practices, new Federal Trade Commission (FTC) rules require additional disclosures from debt settlement companies, including

information about how long it will take to obtain the promised debt relief. The rules also prohibit debt relief services from collecting a fee until they have settled, reduced or otherwise changed the terms of at least one of the consumer's debts. However, the rules don't stop firms from charging high fees.

In general, before doing business with a for-profit debt settlement company, you should first seek out a reputable, non-profit credit counselor.

Avoid scams. Warning signs of possible fraud include demands for upfront fees and requests to start making payments to the organization instead of your creditors directly.

Also be wary of promises to quickly eliminate your debts or remove negative but accurate information from your credit file. "The only legitimate way to rebuild a bad credit history is to show you pay your debts on time and keep your debt to a manageable level," said Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. "That cannot be accomplished overnight by an outside party."

Remember that you have rights when it comes to debt collection. The federal Fair Debt Collection Practices Act requires that you be treated fairly and without harassment. For example, if you dispute a bill in writing within 30 days of being contacted about payment, the debt collector must provide you with proof of the debt before contacting you again to collect the money. Also, debt collection companies that work for your creditor cannot call you at work if you ask them not to.

"And don't believe a debt collector who suggests you can go to jail for missing payments on a loan," added Reynolds. "That threat should be reported to the Federal Trade Commission and your state Attorney General."

Additional Resources

For more tips on dealing with debt overload and exercising your consumer rights, see the educational materials from the Federal Trade Commission (FTC) at www.ftc.gov/bcp/menus/consumer/credit/debt.shtm and a special edition of ***FDIC Consumer News*** entitled "Managing Your Money in Good Times and Bad" (the Winter 2008/2009 issue) at www.fdic.gov/consumers/consumer/news/cnwin0809.

For referrals to reputable credit counseling organizations, one option is to contact the National Foundation for Credit Counseling at 1-800-388-2227 or www.nfcc.org. Also see the fact sheet "Fiscal Fitness: Choosing a Credit Counselor" at the same FTC Web site above.

Credit Protection: Understand the Costs, Limitations and Alternatives Before You Buy

Chances are your credit card issuer or lender has offered to sell you a product that would postpone or make your loan payments if you die or become ill or unemployed. These products may provide security and peace of mind, but how can you tell if the offer is a good deal and one that's right for you?

First, understand that these programs can vary greatly. In general, the main types are:

• "Debt cancellation" programs, which will eliminate all or part of an outstanding balance if the borrower dies, or reduces or eliminates the monthly payments due if the borrower becomes disabled or experiences a major life event (such as a job loss or the birth of a child) by making the payment on the borrower's behalf.

• "Debt suspension" programs, which will temporarily postpone all or part of the monthly payment while the borrower is facing a specified hardship. However, the borrower will still be expected to make the suspended payments in the future, although a late charge will not be assessed for the suspended payment(s). Some programs may even allow a borrower to postpone a payment once a year, such as during the holiday season.

• "Credit insurance," which will pay the outstanding loan balance to the creditor if the borrower dies or will make monthly payments if the borrower becomes ill, injured or unemployed.

Debt cancellation and suspension programs are in many ways the same as credit insurance, but they are offered directly by an individual bank or credit card issuer, not through an insurance company. (Note: To keep things simple, we'll use the name "credit protection" from here on to refer to all of these products.)

What should you consider before you agree to buy credit protection?

Know the full terms and conditions before you commit to anything. Credit protection often is offered through a check-off box on a statement stuffer, online or verbally, with no contract to review until after the consumer enrolls. "You should request and review the full terms and conditions — not just a few words on a Web site or a verbal assurance that a program will take care of you — before saying 'yes' to credit protection," advised Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. He added, though, that many lenders give new enrollees a short period (such as 30 days) to review the terms and conditions and cancel the coverage before they charge a fee.

Understand what is and isn't covered. For example, some credit protection programs suspend (postpone) or cancel (make for you) the *minimum* payment due, which is generally only a small percentage of the outstanding balance. Some programs may limit the number of monthly payments they will make on your behalf. And, while with some programs interest will not accrue during the coverage period, with others it will.

"In general, some credit protection programs may not make much of a dent into your outstanding balance," warned Reynolds. "Just making the minimum payment on a credit card or other loan means it will take you longer to pay off the balance owed, and you will pay more to the lender in interest over the life of the loan."

Some programs advertise that the debt will be cancelled if the borrower dies, but they likely will only pay up to a specified dollar amount, which may not be enough to pay off the full balance. In addition, some programs may only cover accidental deaths, not those due to illness or natural causes.

And if you apply for benefits under a debt suspension program for a credit card or a home equity loan, the terms of the agreement may state that you will not be able to use the card or loan during the claim period.

Know what the coverage will cost you. Many creditors describe the cost of a credit protection program as, say, 85 cents or 95 cents per $100 of the outstanding balance each month. This means that you will pay for credit protection on your purchases even if you pay the balance in full by the due date. For a borrower with a balance of $4,000, that would be $34 to $38 dollars a month. The charge is generally calculated on the average outstanding balance at the end of the month.

"These programs could easily cost you hundreds of dollars a year, and offer only modest benefits when you qualify for them," said Reynolds.

Consider alternatives to credit protection coverage. You may already have, or would be better off with, traditional life or disability insurance — even if the monthly fees are higher than those for credit protection programs — because the insurance policies would enable you (or your estate) to pay multiple debts or expenses rather than just one specific debt.

If life or disability insurance is too costly or you are ineligible for the coverage for health reasons, you might consider establishing an emergency savings account funded by the money you would have paid for credit protection.

Also, it's generally a good idea to call your creditors for assistance when you are facing or anticipating a financial hardship. "They may be able to lower your interest rate or monthly payment, work out a payment plan to stretch payments out over time, or perhaps even forgive some of the debt," said

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Victoria Pawelski, Acting Chief of the FDIC's Compliance Policy Section.

Remember that credit protection is optional. The lender cannot condition approval of your loan on whether you buy a debt cancellation, debt suspension or credit insurance product. Don't confuse these products with other types of insurance that may be required, especially insurance to repair or replace property (such as a home or auto) that serves as collateral for a loan, and private mortgage insurance (protection for the lender if the borrower doesn't repay the loan) that lenders can require for certain home loans.

Try to resolve problems as soon as possible. First, discuss the matter with your lender. If you're not satisfied with the outcome, consider contacting the appropriate government regulator for help or guidance.

The institution's federal banking regulator may be able to answer your questions or concerns about a depository institution's sale of a debt cancellation or debt suspension product. And if you're not sure which federal banking agency regulates a particular lender, you can get the name from the FDIC Call Center at 1-877-ASK-FDIC (1-877-275-3342).

For help and information regarding credit insurance, your state insurance regulator may be your best source of government assistance. To locate your state insurance department, look in your local phone book or check the Web site of the National Association of Insurance Commissioners (NAIC) at www.naic.org.

For more tips about what to consider before buying credit protection, see the NAIC consumer alert "Credit Insurance: Safety Net or No Net Gain?" (www.naic.org/documents/consumer_alert_credit_insurance.htm). The details are specific to credit insurance, but much of the basic guidance also can apply to debt suspension and cancellation programs.

Student Loans: What's New, What's Important

With college costs soaring, student loan debt is at a record high. That's why it's important for students and parents to carefully consider how to pay for college. If savings, grants and scholarships aren't enough, student loans can help finance an education, but you must fully understand the different types of loans available. ***FDIC Consumer News*** offers this update on key things to know about student loans.

The most common federal loan, the Direct Stafford loan, provides many benefits to borrowers that private loans generally do not. "Stafford loans offer low interest rates that are fixed, a variety of repayment plans — including plans that base your monthly payment on your income — and a program where borrowers who have a public service job can have a portion of their balance forgiven under certain circumstances," added Susan Boenau, Chief of the FDIC's Consumer Affairs Section.

In the past, borrowers received federal student loans from banks and other financial institutions. Under a new law that went into effect July 1, 2010, all federal student loans will be provided directly from the government through the financial aid office at the postsecondary institution the student is attending.

To apply for federal student aid as well as most state and college aid, you must first complete and submit a Free Application for Federal Student Aid (FAFSA). The easiest way to apply is with FAFSA on the Web (www.fafsa.gov).

In addition to the federal aid provided to the student, parents may apply for a Direct Plus Loan to help pay their child's education expenses.

To find out about all the federal student aid programs and their benefits, go to www.studentaid.ed.gov.

Private student loans may help pay for expenses not covered by Stafford loans or other federal loans and financial

aid, but do your homework before borrowing.

"Many private student loans have interest rates that may change periodically, which could increase your monthly payments," said Heather St. Germain, an FDIC Consumer Affairs Specialist. "It also is difficult to find a private lender that provides repayment options as attractive as those offered by the federal government."

Parents and students also should remember that some private loans can carry high interest rates.

Finally, we want to remind students that loans must be repaid — and that isn't always easy on a starting salary — so don't borrow more than you need for school-related expenses.

For more information for students and parents from the FDIC, the U.S. Department of Education and other government agencies — on topics ranging from money tips for young adults to saving for college — start at www.mymoney.gov/category/topic1/going-college.html.

What to Know About the New Law Affecting FDIC Insurance Coverage

As reported in our Summer issue, President Obama in July signed a new law that includes two key provisions involving federal deposit insurance. Because calls from the public indicate that there continues to be some confusion over what has or hasn't changed with FDIC insurance coverage, we offer the following overview of the two key provisions:

The basic standard maximum deposit insurance amount has been permanently increased from $100,000 to $250,000. Under previous law, the basic FDIC insurance amount was temporarily increased to $250,000 in 2008, but it was scheduled to return to $100,000 on January 1, 2014. The permanent $250,000 insurance limit will be especially helpful for consumers who expect to have more than $100,000 in their bank starting in 2014 — for example, people who have or are considering multi-year certificates of deposit (CDs) — and who want to be sure their funds will be fully protected by the FDIC.

What else to remember: "You can have far more than $250,000 in one bank and still be fully insured," explained FDIC attorney Christopher Hencke. "That's because the basic insurance coverage limit applies per person, per institution, for each account ownership category under the FDIC's rules. That means your single accounts at one bank are insured up to $250,000, your share of all joint accounts at that bank is separately insured up to another $250,000, and so on down the list of categories."

A new, temporary insurance category will fully insure all funds, regardless of the dollar amount, in checking accounts that pay no interest. The new coverage will begin December 31, 2010, and run for two years. It is similar in certain respects to a temporary FDIC program already in effect that will be replaced at the end of the year.

"Unlike the temporary program being replaced at the end of this year, the new coverage will apply to all federally insured institutions," noted FDIC Supervisory Counsel Joe DiNuzzo. "Another difference is that the new coverage will not apply to checking accounts that pay interest. Those accounts will be insured up to $250,000 under the FDIC's general deposit insurance rules."

What else to remember: The new full-insurance category will be especially helpful for consumers who have a very large sum of money they want to safely park in a bank account for a brief period, until it can be invested elsewhere.

"A good example would be an individual who sells his or her home for $500,000 and wants to deposit that money in the bank without fear of losing anything over the $250,000 insurance limit if the bank fails," Hencke said. "But depositors also should understand that they will earn no interest on their funds because this new, unlimited coverage will apply only to transaction accounts, such as checking accounts, that earn no interest."

To be sure that your account qualifies for this temporary, unlimited FDIC insurance coverage, speak with a customer service representative at your bank.

To learn more about these and other aspects of FDIC insurance coverage, visit www.fdic.gov/deposit/deposits or call 1-877-ASK-FDIC (1-877-275-3342).

Estate Planning and Banking: How to Protect Money for Your Heirs in FDIC-Insured Accounts

Among the many reasons people put significant sums in FDIC-insured deposits is to keep that money safe — for themselves and for their heirs. While the FDIC doesn't recommend particular financial products or strategies for achieving your estate-planning goals, we can describe different types of deposit accounts that can be used to pass funds on to heirs and explain how to make sure your money is fully insured if your bank fails.

Revocable Trust Accounts

Some of the most popular deposits for estate-planning purposes are "revocable trust accounts." These trusts are called "revocable" because, unlike other types of trust accounts, the depositor has the right to change the terms of the inheritance or cancel the trust agreement entirely. You most likely know these accounts by other names. Here are the two main types:

• *Payable-on-death (POD) accounts*, also referred to as "in-trust-for" accounts, are trust deposits that typically can be set up at a bank with a simple, written declaration in the bank's records that upon the death of the depositor, the named beneficiaries will become the new owners of the money. If properly titled, a traditional certificate of deposit (CD), savings account or even a checking account can be set up as a POD account. Because of their simplicity, the FDIC sometimes refers to PODs as "informal" revocable trust accounts.

"A payable-on-death account is usually established when the owner's estate planning is simple — with the sole objective of leaving a specified amount of cash to a beneficiary," said Martin Becker, an FDIC Senior Deposit Insurance Specialist. "If the owner wants to name multiple beneficiaries on a single POD account, each beneficiary typically receives an equal share or amount of the funds when the account owner dies."

• *Living trust accounts* are deposits tied to a legal document typically called

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a living trust or a family trust that is often drafted by an attorney. The FDIC describes these accounts as "formal" revocable trust deposits.

"Formal revocable trusts provide more detailed information about how the owner's estate is to be distributed," Becker explained. "For example, formal trust agreements can be used to describe special conditions that need to be met for a beneficiary to receive funds, and in situations in which the allocations to beneficiaries are unequal or complex."

For various reasons, living trusts may not be for everyone. Having a living trust prepared can be expensive, and sometimes the potential benefits may not outweigh the costs, especially depending on your state's inheritance laws and your financial situation. In contrast, "the simplicity of the payable-on-death account makes it the most common type of revocable trust account," said FDIC Supervisory Counsel Joe DiNuzzo. "A POD account has no trust agreement — the only documentation is in the bank records on which the owner designates the beneficiaries."

Also, the Federal Trade Commission (FTC) has warned that some people and businesses have exaggerated or misrepresented the benefits of living trusts, often in advertisements or seminars, to sell trusts or other products to people who don't need them For additional guidance, see "Living Trust Offers: How to Make Sure They're Trust-worthy" at www.ftc.gov/bcp/edu/pubs/consumer/products/ pro08.shtm.

Under FDIC rules, a depositor's combined interests in all revocable trust accounts at the same bank are insured up to $250,000 *for each unique beneficiary named.* That means a revocable trust account is insured for up to $250,000 if there is one beneficiary, $500,000 if there are two, and so on up to five different beneficiaries. So if you name five different eligible beneficiaries, your revocable trust account(s) at the same bank will be insured to $1.25 million (five times $250,000), regardless of how much money each beneficiary is to receive. And if two depositors own the account(s), the insured amounts would be doubled, up to $2.5 million.

However, Becker noted that if the depositor is attempting to insure more than $1.25 million and there are six or more different beneficiaries that are to receive different shares, the deposit insurance rules change and understanding the coverage can be more complex. In those situations, he recommends calling toll-free 1-877-ASK-FDIC (1-877-275-3342) to speak with an FDIC deposit insurance specialist.

Also under the rules, almost any named beneficiary — including relatives, friends, charities and nonprofit organizations — will qualify the owner to receive $250,000 deposit insurance coverage for each different beneficiary.

Other Accounts, Other Coverage

Other bank accounts that also can help transfer funds to heirs are:

• *Jointly owned accounts with no beneficiaries listed.* In the most common examples, these would be checking accounts, savings accounts or CDs that two or more people own. Typically, there is a "right of survivorship," so, if one of them dies, the survivor(s) will automatically become the sole owner(s) of the funds.

Under the insurance rules, each person's share in all joint accounts with no beneficiaries is protected up to $250,000, separately from other accounts at the same institution. So, if a husband and wife have joint accounts at a bank and there are no beneficiaries named, that money is covered up to $500,000. It's also important to remember that the FDIC defines a joint account as being owned by two or more people with no named beneficiaries. Joint accounts are separately insured from accounts that are co-owned but do have beneficiaries, which are considered revocable trust accounts and are insured as described previously.

What happens to the insurance coverage of a joint account if one of the owners dies? The FDIC will continue to insure the joint account as if the deceased co-owner were still alive — for up to six months from the date of death. That means coverage of up to $500,000 if there were two owners. The grace period is intended to give the survivor time, if necessary, to ensure that all of the funds are fully insured by restructuring the accounts or moving some funds to another insured bank.

• *Irrevocable trust accounts*, which are tied to trust agreements that the owner cannot cancel or change. These accounts usually total no more than the basic FDIC insurance limit ($250,000) because of contingencies in the trust agreements. An example might be that children listed as beneficiaries cannot receive any money until they earn a college degree.

Note: You can also have revocable and irrevocable trust accounts at the same bank. The revocable trust accounts would be insured up to $250,000 for each eligible beneficiary, as described previously, and the irrevocable trusts with at least one beneficiary named would be separately insured up to a minimum of $250,000 in total.

• *Certain retirement accounts*, including Individual Retirement Accounts (IRAs), Keogh accounts (for the self-employed) and "401(k)" accounts. Under the FDIC's rules, a person's deposits in certain retirement accounts at the same bank are added together and insured up to a maximum of $250,000 per owner per bank. While beneficiaries often are named for retirement accounts such as IRAs, these accounts — unlike POD and living trust accounts — do *not* qualify for extra coverage by adding the names of beneficiaries.

Also remember that the FDIC can help you understand your deposit insurance coverage. For more information, 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.

Happy Returns: Tips for Saving Money at Tax Time

FDIC Consumer News doesn't give tax advice, but we do occasionally have suggestions for you to consider or discuss with your tax advisor. Here is our latest collection of tips to keep in mind as you prepare to file your taxes.

Consider using tax time to pay off high-interest debt or save for the future. "Use your tax refund to pay down high-interest debt and build up your savings," said Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. "For example, purchase a U.S. Savings Bond with some or all of your tax refund. You can also direct deposit your refund into as many as three different accounts and three different financial institutions."

Avoid high-interest loans offered at tax time. In particular, be aware that a "refund anticipation loan" is an expensive loan product arranged by tax preparers for people who file their returns electronically and who don't want to wait for their tax refund.

"Refund anticipation loans are costly and often unnecessary because taxpayers can expect to have their tax refund direct deposited into their bank account within about 10 days of when the return was electronically filed with the IRS," explained Joyce Thomas, an FDIC financial educator in the Community Outreach Section.

"The funds spent on fees and interest for any sort of refund advance could be better used, including saving for a goal or paying down debt," added Reynolds.

Be on guard against tax-related frauds. Examples include scam e-mails falsely claiming to come from the IRS and intended to trick taxpayers into revealing personal information. Other scams involve unscrupulous tax preparers who promise larger refunds than competitors and make fraudulent errors that expose victims to costly fees and penalties.

For more information and consumer tips, go to www.irs.gov/newsroom and click on "tax scams."

Check out programs offering free tax help. The IRS-coordinated Volunteer Income Tax Assistance program and the Tax Counseling for the Elderly service offer free tax-preparation assistance for low-income, disabled, elderly, and non-English speaking taxpayers.

Another IRS program is "Free File," which allows taxpayers who earn $58,000 or less (for returns to be filed during 2011) to use a tax-preparation software program to prepare and file their federal taxes for free through the IRS Web site. Taxpayers who exceed the income threshold can still manually complete their forms and "e-file" them through the IRS Web site.

Ask if you may qualify for unusual tax breaks. "These may vary from year to year, but taxpayers in special situations — perhaps those who started a small business, were unemployed, or lost property because of a natural disaster — should check with the IRS for special considerations that may apply to them," Reynolds said.

For more help or information, start at www.irs.gov or consult a tax advisor.

FDIC Issues Guidance to Banks on Overdraft Costs, Usage

As previously reported, new rules require banking institutions to give customers an opportunity to agree in advance ("opt in") before any fee can be charged to cover one-time overdrafts — transaction amounts that exceed the available funds in the account — at sales terminals and ATMs.

In addition, on November 24, the FDIC issued guidance to the more than 4,700 institutions we supervise (mostly small "community banks") setting out the agency's expectations for how they should closely oversee any overdraft payment programs. The guidance focuses on ways to help keep consumers from regularly turning to automated overdraft payment

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programs that make it easy to incur multiple overdrafts, often in a single day, and result in hundreds of dollars in fees. "While many community banks already prudently manage their overdraft programs, some banks operate automated programs that lead to excessive use of these high-cost, short-term credit products," said FDIC Chairman Sheila C. Bair.

Among other things, the FDIC guidance encourages banks to discuss less costly alternatives with affected consumers, institute appropriate daily limits on customer costs, and ensure that transactions are not processed in a manner designed to maximize the fees. It is expected that banks would institute any additional policies and procedures consistent with the new guidance by July 1, 2011. For more details, read the FDIC press release (www.fdic.gov/news/news/press/2010/pr10257.html).

For tips on keeping overdraft costs down, see our article on bank accounts in the Summer 2010 issue at www.fdic.gov/consumers/consumer/news/cnsum10/bank_accounts_are_changing.html.

News Briefs

FDIC Creates New Division Dedicated to Consumer Protection

The FDIC Board of Directors has approved the creation of a new division dedicated to depositor and consumer protection. The new division is expected to enhance the agency's oversight of consumer law compliance and community reinvestment. The FDIC's existing work in areas such as deposit insurance education, consumer finance research, and responses to consumer inquiries and complaints will all be a part of this new organization.

"Our depositor protection and compliance examination and enforcement responsibilities are integral to our unique responsibilities as deposit insurer and supervisor of thousands of community banks," said FDIC Chairman Sheila C. Bair. "The creation of this new division emphasizes the importance we place on these responsibilities."

The new division will be called the Division of Depositor and Consumer Protection.

Nine Banks to Test "Safe Accounts" for Low-Income Consumers

The FDIC has announced the selection of nine banks to participate in a pilot program designed to evaluate the feasibility of offering safe, low-cost checking and savings accounts tailored to meet the needs of consumers who are low-income, unbanked or otherwise "underserved" by mainstream financial institutions.

Key features of the accounts are that they are largely electronic, are FDIC insured, have reasonable rates and fees, and are subject to applicable consumer protections. The transaction accounts will be "checkless" and will not charge overdraft or non-sufficient funds fees. Optional services and features also may be offered.

The case study is part of the FDIC's commitment to ensuring that all U.S. households have access to safe and affordable banking services. For more information, visit www.fdic.gov/consumers/template/.