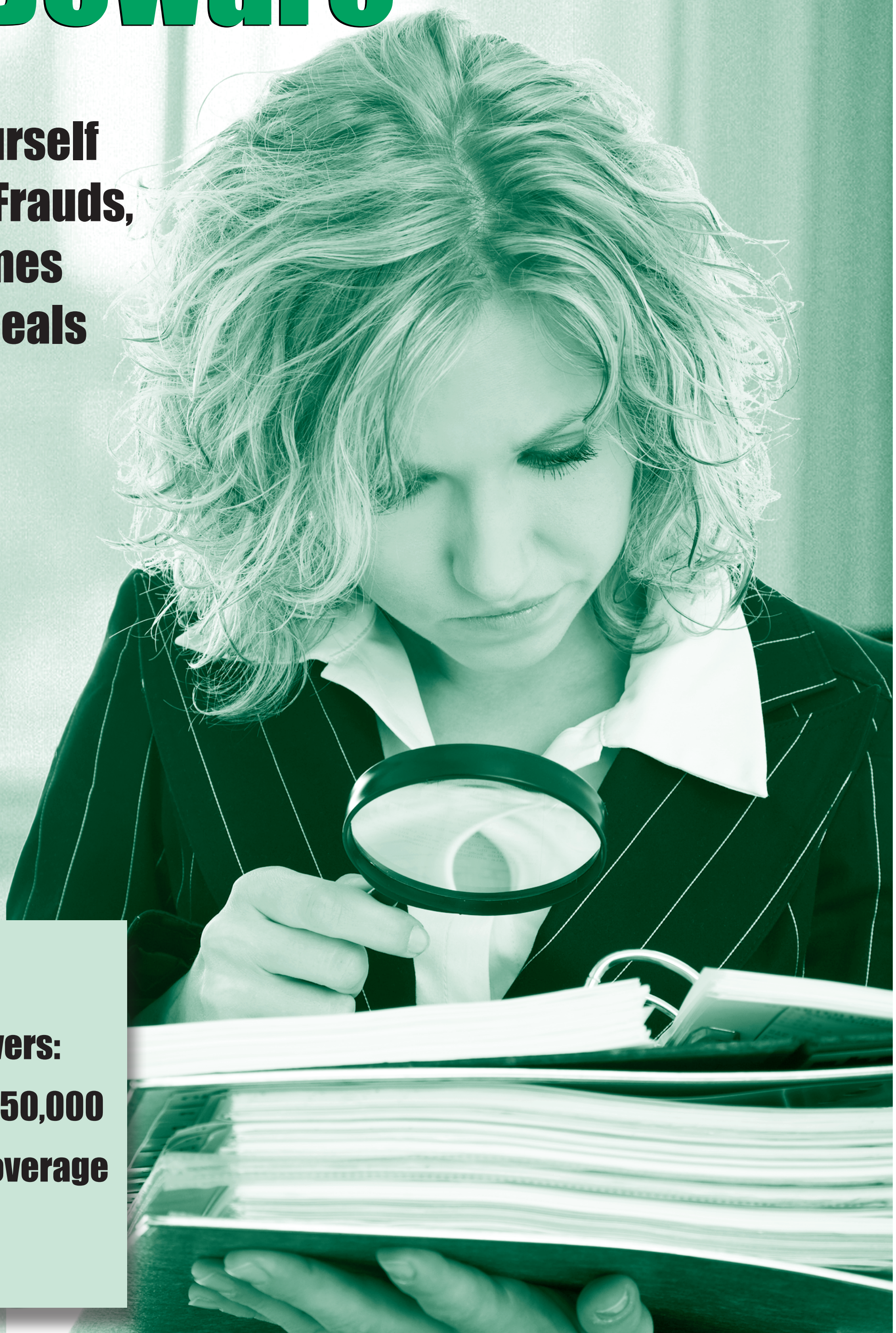
PLUS: More About Mortgage Modification Programs • Shopping for a CD • FDIC Coverage of Pre-Paid Cards Cards

FDIC Consumer News

Spring 2009

Buyer Beware

How to Protect Yourself from Foreclosure Frauds, Easy Money Schemes and Other Costly Deals



ALSO INSIDE

Good News for Savers: Congress Extends $250,000 Deposit Insurance Coverage Through 2013

Foreclosure Rescue and Loan Modification Scammers Still Prey on Stressed Homeowners: Our Latest Tips

As previously reported in ***FDIC Consumer News***, many homeowners having difficulty making their monthly mortgage payments are being targeted by criminals who charge large upfront fees and falsely "guarantee" to rescue a home from foreclosure. In some of the worst cases, homeowners have become victims of identity theft or were tricked into signing away their ownership of a house. Because mortgage rescue scams continue to be a big problem, we offer our latest tips on how to protect yourself.

Try to deal only with lenders, businesses and other organizations you already know or that have been recommended. If you can't pay your mortgage, ask your lender or loan servicer (the company that collects payments and performs other work for the lender) about options for avoiding foreclosure that include lowering your monthly payment by reducing the interest rate, extending the term or adjusting the loan balance.

You don't need to pay a lot of money for help or information. If you think you need assistance working with your lender, get help from a trained, reputable housing counselor who can help you for no charge or a small fee. Find one through groups such as NeighborWorks America (www.nw.org) or by calling 1-888-995-HOPE (4673). Or, for a referral to a local counseling agency certified by the U.S. Department of Housing and Urban Development (HUD), visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm or call 1-800-569-4287.

Lenders, loan servicers and legitimate housing counseling services generally won't charge a fee to help with a loan modification. "But scam artists will demand a large upfront fee, often thousands of dollars, and they do very little to actually help the homeowner," said Robert W. Mooney, FDIC Deputy Director for Consumer Protection and Community Affairs.

Also look at the new U.S. government program for loan modifications and refinancings (see Page 5). There is no fee to get assistance or information about this program from your lender or a HUD-approved housing counselor.

Make your mortgage payments directly to your lender or the mortgage servicer. "Some scam artists claiming to offer foreclosure assistance will give some reason why you should send your mortgage payments to them instead of the lender," added Mooney. "Soon your money — and the scam artist — will be gone."

Be especially suspicious of unsolicited offers that arrive via phone, e-mail or a knock on your door. When in doubt, check out a company with your local Better Business Bureau or state consumer protection office.

"Some companies have falsely advertised or represented that they are part of a government-endorsed mortgage assistance network or they are affiliated with a lender," warned Michael Benardo, manager of the FDIC's Financial Crimes Section.

Be particularly wary of any organization that says it guarantees foreclosure relief or that it has a near-perfect success rate.

Read and understand any documents before you sign them. It may help to obtain advice from a lawyer or trusted financial counselor.

"Be on guard against someone who advises you against talking to your lender directly or getting a second opinion elsewhere," added Benardo. "Also be wary of anyone who promises to pay off your mortgage or repair your credit if you 'temporarily' sign over to them the deed to your home, because you may be permanently losing your home to a thief."

If you think you're already caught up in a scam, alert the proper authorities. Good places to start include the Federal Trade Commission (1-877-FTC-HELP or www.ftccomplaintassistant.gov) and your state Attorney General (www.naag.org/attorneys_general). Also, consider contacting an attorney to help you sort through options and attempt to undo any damage.

Try to deal only with lenders, businesses and other organizations you already know or that have been recommended. If you think you're already caught up in a scam, alert the proper authorities.

For more information, check out www.fdic.gov/foreclosureprevention, where you can find resources that include a new FDIC brochure on mortgage rescue scams. To order up to five paper copies of that brochure, call toll-free 1-877-ASK-FDIC (that's 1-877-275-3342) and select the option for FDIC publications. Also helpful is a Federal Trade Commission consumer fact sheet at www.ftc.gov/bcp/edu/pubs/consumer/credit/cre42.shtm.

Beware of Various Frauds Tied to the Economic Slowdown

In addition to mortgage rescue scams (see Page 2), consumers should beware of a variety of other frauds tied to current economic difficulties.

Scams tied to the Obama Administration's economic stimulus package. The Federal Trade Commission has warned about fraudulent Web sites and e-mails asking consumers for bank account, credit card and other personal information, supposedly for help getting money from the stimulus fund or for direct deposits of government payments. Instead, these scammers are collecting information to make unauthorized charges to credit cards or to withdraw money from bank accounts. For more information, go to www.ftc.gov/opa/2009/03/stimulusscam.shtm.

Bogus "help" with credit and debt problems. In some cases, con artists "guarantee" loan approvals to people with credit problems, then they disappear after collecting a nonrefundable fee and without delivering any services. Others involve companies that advertise credit counseling or promise to settle debts for less than is owed. They charge high fees and provide little or no assistance.

Con artists preying on people who need jobs. One common example involves attractive offers to work part-time from home but the end result is that the new "employer" commits identity theft or check fraud. Another involves "mystery shopper" programs for which consumers are supposedly hired to report on their experience doing business at a retailer but instead lose money in a fake check scam.

You can protect yourself from these and other financial scams by being extremely skeptical of unsolicited offers that involve "updating" or "confirming" personal information or requirements that you send a payment or provide bank account information before receiving anything in return.

Also, walk away from any offer from a stranger that would involve a large check to be deposited into your account and instructions to wire any of that money back, perhaps to someone in another country. In this type of scam, victims may end up owing thousands of dollars to the financial institution that wired the money.

For more information, see our tips in the Winter 2008/2009 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnwin0809/scams.html.

Sounds Good…But Are the Costs Greater Than the Benefits?

Financial services that may come with strings — and fees — attached

You'll often hear about a financial service that sounds like just what you need. But before you sign up, do you take the time to look at all the costs, read the fine print and really try to determine if the product is right for you? Here are examples of when it pays to be an educated consumer.

• **Overdraft programs that charge a sizeable fee for each bounced check or other withdrawals when there aren't enough funds in the account.** According to a recent FDIC study of bank overdraft programs, the median fee charged to consumers was $27 for each check or withdrawal covered. Additional fees or interest charges are also sometimes imposed, such as when an account remains overdrawn. "These programs can become expensive quickly, especially if they're used repeatedly," said Mira Marshall, an FDIC Section Chief specializing in consumer issues.

• **Credit cards advertised to help repair a damaged credit history that come with big, hidden fees.** In late December, the FDIC and the Federal Trade Commission won a major settlement against a marketing firm for misleading offers of a "subprime" credit card. The two government agencies alleged that the solicitations appeared to offer credit cards with a $300 credit limit, but consumers were immediately charged as much as $185 in inadequately disclosed fees, leaving them with as little as $115 in available credit. The company agreed to give customers $114 million in credits to help them pay fees that the company failed to properly disclose.

• **Companies offering to help people deposit their Social Security benefits directly into bank accounts may also sell overpriced products or divert the funds**. In some cases, they solicit business for overpriced loans or other products with hidden fees that could be harmful to consumers, using high-pressure sales tactics. In other cases, certain check cashers, "payday" lenders and small retailers have reportedly diverted Social Security payments intended to be direct-deposited into the bank and used that money for repayments of high-cost loans or fees that the consumer owes them.

• **Deceptive offers of FDIC-insured certificates of deposit** (see Page 7).

• **Potential problems with blank "convenience checks" from your credit card company** (see next page).

In general, how can you protect yourself from a costly decision involving a financial product or service? Comparison shop. Look at the variety of products offered by your

continued on next page

Blank Checks from Your Credit Card Issuer Carry Risks and Costs

Those blank "convenience checks" from your credit card company offer a quick way to write yourself a loan, pay bills or transfer other loans to your credit card account. But be aware that the use of a convenience check is a "cash advance" that comes with high costs and other potential pitfalls.

Take precautions to avoid serious fees and penalties if there's a glitch when you deposit a convenience check into your checking account or send it to pay a bill. Before you write a check, make sure that it will not put you over your limit for cash advances. Also find out what the current limit is in case your credit company reduced the amount you may borrow on your card through cash advances and you forgot or did not notice.

"If the convenience check puts your card balance over the new limit, your card issuer may not honor the check," said Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. "The returned check could trigger overdraft fees from your bank, returned-check fees from others and over-limit fees from your card issuer."

His recommendations: "Understand when your card company might not honor a check. Consider calling your card company to verify your understanding of its policies," Reynolds said. "In addition, you may want to call your credit card company again *after* you deposit the check into your bank and *before* you spend any of that money, to make sure the card issuer has honored the check."

Know the fees and the interest rate you'll pay. Expect to incur a transaction fee of several percent of the amount of each check. If the fee is five percent, you'd pay $50 to write a check for $1,000. In addition, the interest rate on this loan to yourself can be much higher than the rate on your card purchases, perhaps twice as high. Most consumers believe that they will pay off the debt before the introductory rate expires, but many find they can't.

Also consider that you may not be allowed an interest-free period to pay the loan without interest accruing. "Most lenders will begin charging interest when the check posts to your account, even if they otherwise give you at least a couple of weeks to repay your credit card purchases interest-free," said Irma Matias, an FDIC Community Affairs Specialist.

Even if you are offered a low interest rate initially, find out what interest rate you will pay when the introductory period is over. And, think twice about repeatedly transferring balances from one credit card to another, because you could end up paying costly fees that more than offset the attractive, promotional interest rate.

Remember that there may be fewer consumer protections when making purchases with convenience checks. When you use your credit card for purchases, the Fair Credit Billing Act gives you the ability, under certain circumstances, to withhold payment on defective goods until the problem has been corrected. That protection doesn't exist with convenience checks, even though they are related to your credit card account. Also, with convenience checks, you may not receive any rebates or points as you would using a credit card.

Look for and shred convenience checks you don't plan to use. "Dishonest friends, family members or workers around the house have found convenience checks very convenient for getting a loan without going through the hassle of asking," said David M. Nelson, a fraud examiner in the FDIC's Financial Crimes Section. "Also remember that thieves rummage through trash looking for valuable papers such as convenience checks and bank statements, so do your best to shred these documents before you toss them away."

Consider asking your card issuer to stop mailing you convenience checks if you're sure you don't want them. "This saves paper, avoids the risk the checks might be stolen from your mailbox or home, and helps discourage you from turning to the checks as an easy fix," said Reynolds. "Convenience checks can be expensive and many consumers find that they should be used sparingly, if at all."

For More Information About Avoiding Fraud and Costly Deals

The Federal Deposit Insurance Corporation publishes brochures and articles in ***FDIC Consumer News*** on topics ranging from protecting against identity theft and mortgage fraud to choosing a certificate of deposit. Start at www.fdic.gov/quicklinks/consumers.html or call toll-free 1-877-ASK-FDIC, which is 1-877-275-3342.

Other government agencies also have resources that can help consumers protect against financial scams and rip-offs. Start at www.mymoney.gov, the federal government's central Web site about managing money.

continued from Page 3

Sounds Good…But

bank and a few competitors, then try to find the best deal to meet your needs. Also, before accepting an offer, make sure that you understand any fees associated with the product or service. Be especially cautious with fees for services you expect to use often. Ask about the least expensive options and look into changing your banking habits to avoid fees.

For example, to avoid some of the more costly overdraft programs, you should find out if your bank allows you to link your checking account to a savings account or to an overdraft line of credit. These products generally are less expensive than programs that charge a large fee each time you incur an overdraft.

Making Your Home Affordable: New Options for Lowering Payments

The Obama Administration's "Making Home Affordable" program is designed to help distressed mortgage borrowers avoid foreclosure or overcome obstacles to refinancing their loans. In the Winter 2008/2009 issue of ***FDIC Consumer News***, we provided early details about the plan. Now here's more information, including how to find out if you're eligible for assistance and how to get additional help.

Refinancing Opportunities: This part of the program is intended to help four to five million homeowners who have been unable to refinance into mortgages with a lower interest rate because their homes have decreased in value.

In general, to qualify for a mortgage refinancing under this program, homeowners must have an existing mortgage owned or guaranteed by Fannie Mae or Freddie Mac (government-sponsored enterprises that help ensure funds are available for home buyers at affordable interest rates), be current on their mortgage, and have a first mortgage that does not exceed 105 percent of the property's current market value.

The interest rate and any refinancing fees will be set by each lender. Call your mortgage lender or loan servicer (the company that collects your monthly mortgage payments) to find out if your loan is eligible. If you already know that your loan is held or guaranteed by Fannie Mae or Freddie Mac, you can contact them at 1-800-7FANNIE or 1-800-FREDDIE to see if you qualify for this program.

Loan Modifications: This part of the program is designed to help as many as three to four million homeowners at risk of losing their homes to foreclosure by reducing the monthly payments on their mortgages. To be eligible, the home must be the primary residence, the loan balance must be no more than $729,750 for a single-family home, the payment (on a first mortgage) must be more than 31 percent of the borrower's gross (pre-tax) monthly income, and the homeowner must either be having trouble meeting mortgage payments or be at serious risk of falling behind. Bankruptcy does not automatically disqualify a homeowner from participating.

Participation by lenders and loan servicers is voluntary. However, the U.S. Treasury is offering incentives to servicers to modify loans to make them affordable — first to reduce the interest rate to as low as 2 percent, and next, if needed, to extend the length of the loan to 40 years. If that isn't enough to make the loan affordable, the loan servicer may defer repayment on a portion of the loan, which can result in a sizeable "balloon payment" due at the end of the loan. Another option may be for the servicer to forgive some of the principal, but there is no requirement for servicers to make that concession.

The modified interest rate will remain in place for five years, then it will increase gradually by up to one percent per year until it reaches a cap prescribed by the program.

The Administration's loan modification plan was modeled, in large part, on a program developed by the FDIC in 2008 to help thousands of delinquent mortgage borrowers at the failed IndyMac Bank in California who needed assistance to remain in their homes.

To provide additional assistance, the administration recently announced a loan modification program to help mortgage borrowers having trouble making payments on second mortgages, such as home equity loans.

To Learn More: The Web site www.makinghomeaffordable.gov provides homeowners with detailed information about the programs. 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. Sam Frumkin, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection, cautioned that because qualifying for a loan modification is a complex process, "even if the Web site says you are not eligible, it is probably still a good idea to contact your mortgage servicer, with or without the help of a reputable housing counselor, to find out if you qualify."

Also keep in mind that all lenders are not participating in the Administration's refinancing and loan modification programs, but lenders generally are willing to assist borrowers in trouble. "You might qualify for the Administration's program or for a different loan modification program that can also lower your monthly payment, but you need to call your loan servicer or lender and ask about your eligibility," said Suzy Gardner, an FDIC bank examination specialist.

Finally, see our guidance on avoiding mortgage rescue frauds on Page 2.

Programs That Can Help You Through the Current Crisis

Two of the most important recent actions taken by the federal government are the initiatives helping mortgage borrowers stay in their homes (see article above) and the temporary increase in the basic deposit insurance coverage (see Page 6). Others include the following:

• First-time homebuyers who purchase a home starting January 1 through December 1, 2009, may be eligible for a tax credit of up to $8,000.

• Buyers of new cars, light trucks, motor homes and motorcycles between February 17 and December 31, 2009, may be eligible to deduct the sales and excise taxes they paid.

• Reverse mortgages, which are home loans for people age 62 or older that do not have to be repaid until the

continued on the next page

continued from Page 5

borrower moves, sells the property or dies, now have new rules. Provisions of the Housing and Economic Recovery Act of 2008 increase the maximum loan amount for reverse mortgages guaranteed by the Federal Housing Administration, impose a cap on fees and permit reverse mortgages to be used to buy a home. (The FDIC encourages consumers to understand the pros, cons and costs before borrowing money with a reverse mortgage. For more information, see www.fdic.gov/consumers/consumer/news/cnspr08/expenses.html in the Spring 2008 ***FDIC Consumer News***.)

• Families have more help paying for college, including expanded tax credits for qualifying post-secondary education expenses and increased funding for Pell Grants for low-income college students.

• Small businesses can benefit from reduced fees and increased guarantees for many loans backed by the Small Business Administration (SBA). Another new program from the SBA will help small businesses meet existing debt payments. In addition, under a change in the tax code, small businesses may be able to save on taxes when they make certain investments in their business, such as purchases of machinery and computers.

"Consumers and small businesses can directly benefit from countless actions the federal government is taking to promote economic recovery," said Luke W. Reynolds, Chief of the FDIC's Community Affairs Outreach Section. "This is an example in which knowledge is power — where awareness of a new federal initiative can help you or someone you know."

For more information about initiatives resulting from the new recovery law, visit www.recovery.gov. For details on the broader array of federal loan programs and other government benefits you may be eligible for, start at www.govbenefits.gov. Also see Pages 2 and 3 for warnings about frauds tied to the current economic slowdown.

Congress Extends $250,000 Insurance Coverage Through 2013

Last October, to help reassure depositors about the safety of their money during the economic crisis, Congress temporarily increased the basic limit on federal insurance coverage from $100,000 to $250,000 per depositor through December 31, 2009. Now here's important news, especially for people who have or plan to place long-term deposits. On May 19, 2009, Congress extended the temporary $250,000 coverage through December 31, 2013.

That means that if you (or your family) have $250,000 or less in all of your deposit accounts at the same insured bank, you don't need to worry about your insurance coverage — your deposits are fully insured through at least 2013. And as always, you may qualify for more than the basic insurance coverage at one insured bank because the FDIC provides separate insurance coverage for deposits held in different "ownership categories" such as single accounts and joint accounts. Under current law, certain retirement accounts including IRA deposits will continue being protected up to $250,000 even after 2013 because that is the permanent coverage limit previously set by Congress for these accounts in 2006.

For more information about your FDIC insurance coverage, start at www.myfdicinsurance.gov or call toll-free 1-877-ASK-FDIC (1-877-275-3342).

Shopping for a CD: Be Informed, Be Safe

With many investments in the stock market or real estate declining in value, certificates of deposit (CDs) remain some of the safest and most reliable places for your money. But as with most financial products and services, it pays to do some research and take other precautions before you buy.

CDs come in many varieties, so shop around. With a traditional FDIC-insured CD, you agree to keep the money in an account for a set term — a few weeks to several years. In return, the bank agrees to pay you a higher interest rate than you would receive from a checking or savings account. If you need the money back earlier, you can arrange that but expect to pay an early withdrawal penalty. However, the traditional CD now is only one of the choices.

"Many institutions have added innovative programs that give depositors new flexibility with CDs," said Sukari Smith, an FDIC Community Affairs Specialist. "Now you may be able to add money to the CD, switch to a higher interest rate or withdraw money early without a penalty. You need to look carefully and decide what makes sense for you."

When shopping around, ask these questions:

• ***What is the interest rate? Can the interest rate go up in the future?*** Ask about any features that may allow you to earn a higher rate if market rates go up in the future. But also remember that a CD with more flexible terms than a traditional, fixed-rate CD may be offered at a lower interest rate.

• ***When does the CD mature? Are there options for early access without a penalty? If not, what is the penalty?*** Think about how long you are willing to leave funds in a CD but also ask what would happen if you needed money back sooner than expected.

• ***Will the CD automatically renew at maturity if I don't withdraw the money?*** If that's the case, find out if the automatic renewal will be at the "old" interest rate or the current rate at the time of the renewal. If market rates have increased, it is not to your benefit to renew at the old rate.

You may be able to get a good deal on a bank CD sold by a brokerage firm, but it also may come with extra risks and costs. Although most savers purchase CDs through local banks, firms known as "deposit brokers" compare rates at several banks and sometimes negotiate a higher interest rate by promising to bring a certain amount of deposits to an institution. But a broker-sold CD can be complex and may carry more risks than purchasing a CD directly from a bank. Before buying a CD from a broker, read and understand the fine print, and make sure you are dealing with a reputable broker. For more guidance, see "Certificates of Deposit: Tips for Savers," at www.fdic.gov/deposit/deposits/certificate.

Consider "laddering" your CD purchases over different time periods. Say you have $10,000 to invest and you'd like to maximize your earnings but you're hesitant about investing long term. Instead of putting it all into a five-year CD just to get a high, long-term interest rate, you could place $2,000 in a CD that matures in a year, $2,000 in a CD that matures in two years, and so on, which means you'll have a CD maturing every year for five years. If you follow the strategy, you'll roll each maturing CD into a new 5-year CD. But if you need the money for other uses, you will not have to pay an early withdrawal penalty.

Deposit with confidence knowing that federal deposit insurance of $250,000 will continue through 2013. As noted in the box on Page 6, Congress has extended the temporary insurance limit of $250,000 per depositor (up from $100,000 per depositor) from December 31, 2009, through December 31, 2013. "The continuation of $250,000 insurance coverage is great news for depositors who want to purchase long-term CDs," said Martin Becker, an FDIC Senior Consumer Affairs Specialist. "It means that between now and year-end 2013, if your funds are within the $250,000 federal insurance limit, you are fully protected if the bank fails."

For more information about FDIC insurance, including an explanation of your options if some of your deposits are over the federal limit, visit www.myfdicinsurance.gov or call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342).

Beware of an advertised CD rate far above the competition. First, it could be a product issued by a company that is not federally insured and any money invested is at risk. Second, it could be a marketing ploy. "An offer of a very high interest rate may be a lure to promote the sale of non-insured products," said Richard M. Schwartz, an FDIC attorney who specializes in consumer issues. "Some non-bank companies are using the FDIC logo and good name to draw customers in the door for a bank CD, but sooner or later, they're going to try to lock them into a long-term investment that may not be in the customer's best interest."

In one variation, a company may advertise in the local newspaper a 5.0 percent interest rate for a six-month bank CD for consumers with $10,000 to invest. When a customer calls, he or she is told to come to the office to discuss the details. It turns out that the bank is paying only 2.5 percent — not 5.0 percent — but the sales person for the company offers to add enough money to the CD purchase to make up the difference. When the CD matures, there's no similar offer on a new CD and the individual can be steered into purchasing a non-insured investment that may be a poor choice for the consumer but very lucrative for the sellers.

Schwartz offers this final advice: "If you are purchasing a CD, verify that it is issued by a federally insured depository institution. Understand the interest rate and the terms offered. Finally, research the going interest rates from banks locally and around the country, and if you find an offer that sounds too good to be true, be aware that there will definitely be strings attached."

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For More Help or Information

Go to www.fdic.gov or call toll-free 1-877-ASK-FDIC — that's 1-877-275-3342 — Monday through Friday 7:00 a.m. to 8:00 p.m., ET Saturday and Sunday 9:00 a.m. to 5:00 p.m., ET

FDIC Clarifies Deposit Insurance Coverage of Pre-Paid Cards

What happens if you receive your salary or government benefit payments on a pre-paid card…and the bank holding the money for the card fails? An official opinion recently issued by the FDIC's General Counsel has clarified how the balance on the card would be covered by FDIC insurance.

The FDIC opinion, dated November 13, 2008, says that when an employer, government agency or other organization places money with an insured institution to hold for peoples' use with pre-paid cards, the funds will be considered deposits and, therefore, covered by FDIC insurance up to the federal limit.

If the cardholder is named in the bank's records or certain other documentation, the balance on the card will be insured for the cardholder up to the federal limit. If no records identify the cardholder, any deposits at the bank will be insured to some other party, such as the card distributor. "In that case," explained FDIC attorney Christopher Hencke, "if the bank fails, the cardholder may or may not be able to recover his or her money from the card distributor. The cardholder will not be directly protected by the FDIC."

While the FDIC legal opinion also applies to small-dollar, general-purpose "gift cards" that can be used at a variety of stores and service providers, Hencke noted the ruling is "primarily of interest to people with hundreds or thousands of dollars on payroll cards or government benefit cards."

What should you do if you want to be sure the value on a pre-paid card is protected by FDIC insurance in the unlikely event that the bank holding the money fails? Contact the source of the payment and ask if its records show you as the owner of the funds.

You can find the opinion letter online at www.fdic.gov/news/news/financial/2008/fil08129.html. If you have questions about the opinion or something else involving your insurance coverage, you can call the FDIC at 1-877-ASK-FDIC (1-877-275-3342).

Consumers also should be aware that FDIC insurance coverage only takes effect if an insured depository institution fails, not, for example, if a cardholder loses a pre-paid card.