



BANKING AND CREDIT

MARCH 27, 2012

PRESENTED BY GIGI WOLF

FEDERAL RESERVE BANK OF KANSAS CITY

The Fed and the Banking System

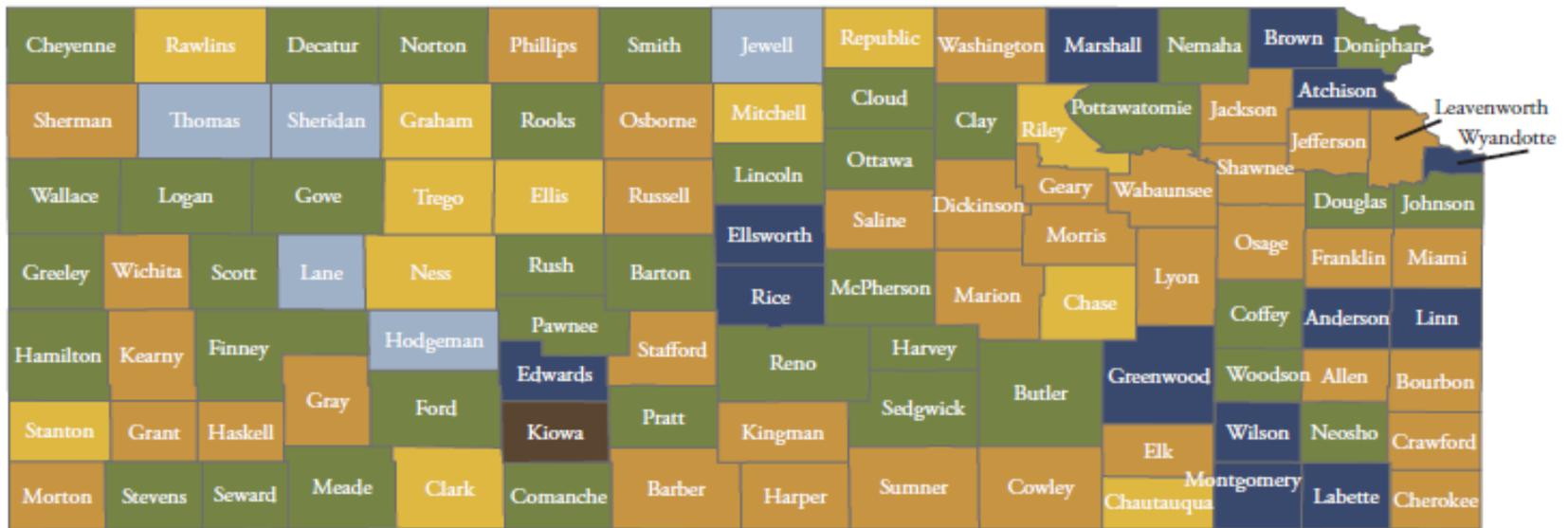
- As the nation's central bank, the Federal Reserve has three primary functions:
 - Monetary Policy
 - Supervision and Regulation
 - Financial Services
- The Fed also acts as the fiscal agent for the U.S. Treasury and is engaged in consumer protection activities
- 34 percent of U.S. commercial banks are members of the Fed

Kansas Consumer Trends

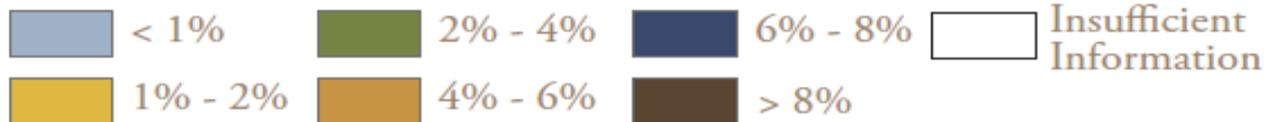
- Overall consumer debt has declined
- Mortgage delinquencies were below the national average - 3.9 percent were seriously delinquent
- The average debt per consumer was just above \$15,000
- Revolving debt has declined
- About 2.2 percent of bank cards were delinquent
- About 13 percent of student loans were delinquent, while 3.7 percent of auto loans were past due
- 97 of every 10,000 households filed for bankruptcy

Kansas Consumer Trends

Map: Serious Delinquency Rates by County



Legend



Source: Lender Processing Services, Inc.

Note: Serious delinquencies represent mortgages that are 90 or more days past due or in some stage of the foreclosure process.

Financial Institutions

- Insured Financial Institutions
 - Banks and Thrifts
 - Subject to federal and state laws
 - All deposits are insured by the FDIC up to \$250,000
 - Credit Unions
 - In addition to the above, they are nonprofit and require membership from account holders
 - All deposits are insured by the NCUA up to \$250,000
- All offer different terms, fees, account types, etc.

Benefits of Financial Institutions

- Safety
- Convenience
- Financial Future
- Security
- Cost

Unbanked vs. Banked

Unbanked = \$1,300 in fees annually

\$800 for check cashing, bill paying

\$200 for money orders

\$300 for wire transfers

Banked = \$200 in fees annually

\$60 for savings account

\$60 for checking account

\$100 for service fees

Credit Trends

- Credit cards comprise an increasing amount of consumer debt
- Average college student has 4.6 credit cards -- \$4,100 of debt upon graduation
- According to Fair Isaac Co. (FICO):
 - Today's consumers have an avg. of 13 credit obligations (9 are credit cards)
 - Over 50% of all credit card users make only the minimum payment each month
 - 30% have been delinquent on a credit obligation of 60 days or more
 - Almost 37% carry more than \$10,000 of non-mortgage-related debt
 - 1 in 7 are using 80% or more of their credit limit
 - Avg. FICO score: 60% below 749

Credit Basics

- Importance of “GOOD” credit:
 - Helps to expedite large purchases and qualify you for certain transactions (car rental, etc.)
 - Influences how much interest you pay
 - Impacts employment and ability to rent an apartment
 - Affects insurance premiums or ability to be insured
- Four types of credit:
 - Revolving credit Charge cards
 - Installment credit Service credit
- Credit reports are available FREE annually through each of the three credit bureaus,
www.annualcreditreport.com

Cost of Credit

Credit card with \$2,000 balance and 18.99% APR	Minimum Monthly Payment	Higher Monthly Payment
Monthly payment amount	\$40	\$100
Number of months to re-pay	264	24
Total interest paid	\$4,786	\$424

- Credit card companies and lenders may use the following to determine whether or not to extend credit to an individual.
 - Income
 - Expenses
 - Assets
 - Debt to Income ratio
 - Employment history
 - Credit history

Credit CARD Act Overview

- Credit CARD Act passed in Congress May 2009
 - Credit Card Accountability Responsibility and Disclosure Act
- Staggered implementation August 2009, February 2010, July and August 2010 and January and July 2011
 - Prevents unfair increases in rates, terms and fees and encourages transparency
 - Requires fairness in application and payments
 - Protects the rights of financially responsible card users and safeguards young consumers
 - Provides enhanced disclosures of terms and conditions
 - Strengthens oversight of the credit card industry with increased penalties for violators

New Protections and Disclosures: Interest Rates

- Change in terms notice now requires 45 day advance
- No rate increases during first 12 months, including promos
- No increases for existing balances, even if penalty rates apply
- Universal default is no longer allowed
- Two-cycle billing is prohibited
- Promotional APRs must be at least 6 months long
- New accounts/limit increases based on individual ability to repay
- Penalty rates can be reversed if minimum payments made on time for 6 consecutive months

New Protections and Disclosures: Fees

- No fees unless there is adequate time to make payments
- No fees when payments are late due a servicer address change
- No over-limit fees without “opting in”
- No fees for making a payment
- Fees limited to no more than 25% of credit limit
- Late penalty fees are limited to no more than \$25
- Penalty fees cannot exceed the dollar amount of the infraction
- Inactivity fees are banned
- Fees cannot be assessed multiple times for a single violation
- Increased rates since Jan. 2009 must be re-evaluated

New Protections and Disclosures for Young Consumers

- No new credit cards or credit limit increases for individuals under 21 unless there is:
 - A co-signer over 21 or
 - Financial information showing the individual has the capacity to independently repay the debt
- Prescreened offers are subject to increased limitations
- Affinity arrangements or contracts between universities and credit card issuers must be disclosed
- Offers of tangible items prohibited

New Protections and Disclosures: Other Changes

- Payments exceeding the minimum first applied to balances with highest rates
- No more deceptive marketing for “free” credit reports
- Estate administration for deceased account holders more timely
- New notices distributed after you apply for credit
- What you should do when you receive a notice
 - Review the notice
 - Obtain and examine your credit report
 - Dispute any errors
- Credit card application and billing statement disclosures have improved
- Provisions have been made to debit card and gift/stored-value card practices

G-17(B) Account-Opening Sample

Disclosure example Credit application

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	8.99% This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	15.99% This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	21.99% This APR will vary with the market based on the Prime Rate.
Penalty APR and When it Applies	28.99% This APR may be applied to your account if you: 1) Make a late payment; 2) Go over your credit limit twice in a six-month period; 3) Make a payment that is returned; or 4) Do any of the above on another account that you have with us. How Long Will the Penalty APR Apply?: If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
Paying Interest	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month. We will begin charging interest on cash advances and balance transfers on the transaction date.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard .

Fees	
Annual Fee	None
Transaction Fees	
• Balance Transfer	Either \$5 or 3% of the amount of each transfer, whichever is greater (maximum fee: \$100).
• Cash Advance	Either \$5 or 3% of the amount of each cash advance, whichever is greater.
• Foreign Transaction	2% of each transaction in U.S. dollars.
Penalty Fees	
• Late Payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000
• Over-the-Credit Limit	\$29
• Returned Payment	\$35
Other Fees	
• Required Account Protector Plan	\$0.79 per \$100 of balance at the end of each statement period. See back for details.

How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)." See your account agreement for more details.

Billing Rights: Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.

XXX Bank Credit Card Account Statement
 Account Number XXXX XXXX XXXX XXXX
 February 21, 2012 to March 22, 2012

Disclosure example Billing statement, page 1

Summary of Account Activity	
Previous Balance	\$535.07
Payments	-\$450.00
Other Credits	-\$13.45
Purchases	+\$529.57
Balance Transfers	+\$765.00
Cash Advances	+\$318.00
Past Due Amount	+\$0.00
Fees Charged	+\$68.45
Interest Charged	+\$10.89
New Balance	\$1,784.53
Credit limit	\$2,000.00
Available credit	\$215.47
Statement closing date	3/22/2012
Days in billing cycle	30

QUESTIONS?
 Call Customer Service 1-XXX-XXX-XXXX
 Lost or Stolen Credit Card 1-XXX-XXX-XXXX

Payment Information	
New Balance	\$1,784.53
Minimum Payment Due	\$53.00
Payment Due Date	4/20/12

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	10 years	\$3,284
\$62	3 years	\$2,232 (Savings=\$1,052)

If you would like information about credit counseling services, call 1-800-XXX-XXXX.

Please send billing inquiries and correspondence to:
 PO Box XXXX, Anytown, Anystate XXXXX

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.

These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APRs described below will apply to these transactions.

Transactions made before 4/9/12: Current APRs will continue to apply to these transactions.

If you are already being charged a higher Penalty APR for purchases: In this case, any changes to APRs described below will not go into effect at this time. These changes will go into effect when the Penalty APR no longer applies to your account.

Revised Terms, as of 5/10/12	
APR for Purchases	16.99%

Transactions				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
5584186P8035W6YM	2/22	2/23	Store #1	\$2.05
05444000602LV72VL	2/24	2/25	Store #2	\$12.11
55541860705R DYD0X	2/24	2/25	Store #3	\$4.83
554328608008W60MQ	2/24	2/25	Store #4	\$114.95
054830709LYMRPT4L	2/24	2/25	Store #5	\$7.35
854338203F8600Q25	2/25	2/25	Pyml Thank You	\$450.00-

(transactions continued on next page)

NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION

Page 1 of 2

Please detach this portion and return with your payment to ensure proper credit. Retain copy or portion for your records.

Account Number: XXXX XXXX XXXX XXXX
 New Balance \$1,784.53
 Minimum Payment Due \$53.00
 Payment Due Date 4/20/12

AMOUNT ENCLOSED: \$

Please indicate address change and additional cardholder requests on the reverse side.

XXX Bank
 P.O. Box XXXX
 Anytown, Anystate XXXXX

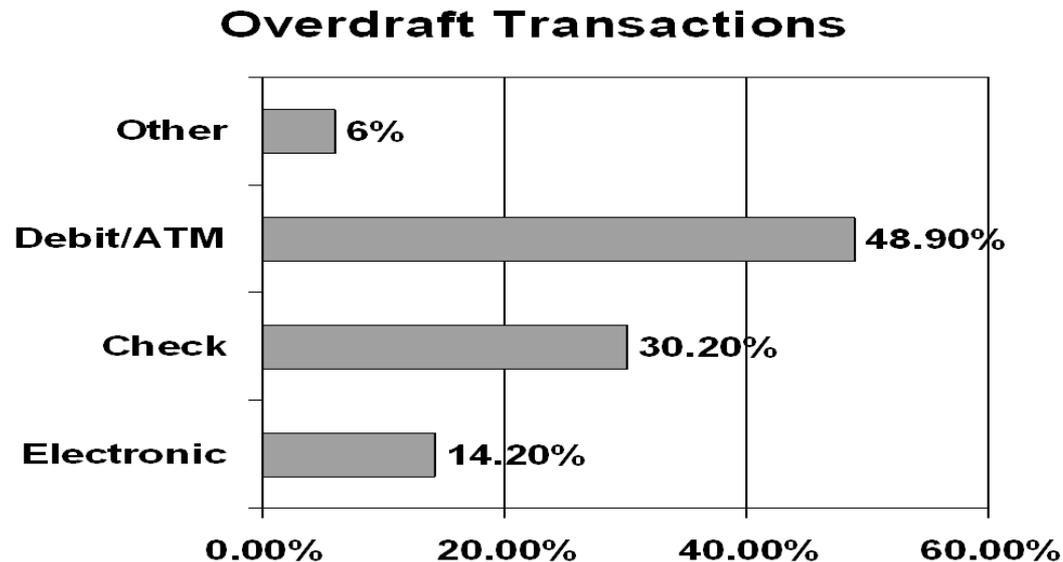


Disclosure example Billing statement, page 2

Transactions (cont.)				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
564891561545KOSHD	2/25	2/26	Store #6	\$14.35
841517677645AKOJIO	2/25	2/26	Store #7	\$40.35
895848561561894KOH	2/26	2/27	Store #8	\$27.68
1871556189456SANKL	2/26	2/27	Store #9	\$124.76
1542202074TWWZV48	2/26	2/26	Cash Advance	\$121.50
256489418518BLKDFID	2/27	2/28	Store #10	\$32.87
4545754784KOHUIOS	2/27	3/1	Balance Transfer	\$785.00
14547847588KDDL584	2/28	2/28	Cash Advance	\$198.50
2564581023184102315	2/28	3/1	Store #11	\$14.76
55542818705RASD0X	3/1	3/2	Store #12	\$3.76
289189194ASD98744	3/1	3/3	Store #13	\$13.45
178105417841045784	3/2	3/6	Store #14	\$2.35
045148714518979874	3/4	3/5	Store #13	\$13.45
84561521561818DSA	3/5	3/12	Store #15	\$25.00
31289105205648AWD	3/11	3/12	Store #16	\$7.34
04518478415615ASD	3/11	3/16	Store #17	\$10.56
0547810544898715AF	3/15	3/17	Store #18	\$24.50
056489413216848CP	3/16	3/17	Store #19	\$8.76
054894561564ASDW	3/17	3/18	Store #20	\$14.23
5648974891AD58156	3/19	3/20	Store #21	\$23.76
Fees				
9525156489SFD4545Q	2/23	2/23	Late Fee	\$35.00
56415615647OJSNDS	2/26	2/26	Cash Advance Fee	\$5.00
84151564SADS8745H	2/27	2/27	Balance Transfer Fee	\$23.55
256489156189491516L	2/28	2/28	Cash Advance Fee	\$5.90
TOTAL FEES FOR THIS PERIOD				\$69.45
Interest Charged				
Interest Charge on Purchases				\$6.31
Interest Charge on Cash Advances				\$4.58
TOTAL INTEREST FOR THIS PERIOD				\$10.89
2012 Totals Year-to-Date				
Total fees charged in 2012				\$60.14
Total interest charged in 2012				\$18.27

Interest Charge Calculation			
Your Annual Percentage Rate (APR) is the annual interest rate on your account.			
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.89% (v)	\$512.14	\$6.31
Cash Advances	21.99% (v)	\$263.50	\$4.58
Balance Transfers	0.00%	\$637.50	\$0.00
(v) = Variable Rate			

New Protections and Disclosures: Debit Cards



- Must opt-in for overdraft protection for ATM and point-of-sale withdrawals
 - Exceptions (e.g., checks, scheduled payments)
 - Other options to avoid overdrafts include linking to your savings account or opening an overdraft line of credit

New Protections and Disclosures: Gift Cards

- New policies cover stored gift cards for specific stores AND “universal” gift cards with MC, Visa, AmEx or Discover
 - All fees must be clearly disclosed on the card/packaging
 - Dormancy, inactivity, and usage/service fees are limited
 - Fees incurred by purchaser rather than recipient
- Expiration date is 5-years minimum
- Use of card after expiration possible
 - Can request a replacement card for any unspent balance at no charge if card expires before balance is used

Banking & Credit Resources: For the Public

- Bank On Save Up website
 - www.bankonsaveupkc.org
- Federal Deposit Insurance Corporation website
 - www.fdic.gov
- National Credit Union Association website
 - www.ncua.gov
- Federal Reserve Consumer Help website
 - www.federalreserveconsumerhelp.gov
- Federal Reserve Board of Governors credit website
 - www.federalreserve.gov/creditcard
- Federal Trade Commission website
 - www.ftc.gov
- Credit Counseling website
 - www.nfcc.org
- Federal Reserve Education website
 - www.federalreserveeducation.org

Banking & Credit Resources: For the Classroom

- [Personal Finance 101: Personal Finance Chats](#) (online simulations and forms)
- [Econ Ed Mobile Learning Application](#) (mobile app.)
- [Building Wealth](#) (booklet and lesson plans)
- [Cards, Cars and Currency](#) (curriculum series)
- [Katrina's Classroom](#) (DVD- based curriculum series)
- [Banking Basics](#) (booklet)
- [Professor Finance and Fed Boy Meet the Catastrophe Clan](#) (role play lesson)

Federal Reserve Education website

- www.federalreserveeducation.org



Questions?

Gigi Wolf

Economic Education Specialist

Federal Reserve Bank of Kansas City

816-881-2726 or 800-333-1010, ext. 2736

gigi.wolf@kc.frb.org

www.kansascityfed.org