Buying on credit has become an everyday occurrence in our society and many people look upon credit as an inalienable right. In fact, it's a privilege that should be protected and that is available to those who are creditworthy.

Some creditors determine whether a customer is a good risk by evaluating his or her loan application. The application indicates the customer's ability to pay (how much money is left over after basic expenses are paid); assets (house, bank account, insurance policy); and credit history (an applicant's record in paying off previous debts). Sometimes an applicant's attitude, appearance, and behavior influence a creditor's decision to grant a loan. It is to the applicant's benefit to act responsibly and courteously when applying for credit.

To better understand the differences between unfair treatment and treatment that results from the normal application of bank credit policy, a potential applicant should be aware of the criteria that most bankers follow when granting or denying credit.

The Equal Credit Opportunity Act (ECOA) prohibits creditors from denying credit to applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant is of legal age to enter into a binding contract), or because any of the applicant's income comes from a public assistance program. The Act also protects the applicant from discrimination if he or she has exercised any of his or her rights under other provisions of the Consumer Credit Protection Act, such as those under the Truth in Lending Act or the Fair Credit Reporting Act. Although ECOA affords the protections listed above, it does not prohibit a creditor from setting credit standards for applicants, provided those standards do not treat an applicant unfairly on any prohibited basis.

Neither ECOA nor its implementing regulation, Federal Reserve Regulation B, requires a creditor to consider the following factors; however, most creditors will normally consider many of them before granting or denying an application.

Completion of the Credit Application
It is difficult for the creditor to make a sound judgement on an application if the applicant cannot or will not provide the necessary information a creditor needs to make a decision. An incomplete application may be a basis for denying a loan.

Failure to Provide Adequate Credit References
Most creditors feel it is important to be able to establish a credit history before making a decision to grant a loan. The primary source of information is the applicant's previous creditors. These creditors may include banks or finance companies from which the applicant previously obtained loans, landlords (to determine if the applicant is current on his or her rent), or insurance companies regarding periodic premium payments. Creditors usually verify this information.

The Nature and Length of Employment
If the applicant's employment is temporary or irregular in nature, it may be difficult for him or her to make the payments necessary to repay the loan in accordance with the loan contract. If the creditor cannot verify the applicant's employment, it may be difficult to consider whether he or she will have sufficient funds to repay the loan.

Insufficient Income, Excessive Debts, or the Inability to Verify Income
If the amount of income listed on the application, in relation to the amount of debts owed, including the loan being applied for, is insufficient to repay the loan, the creditor may not be able to grant the loan. As with employment, if income cannot be verified, it may be the basis for denying an application.

Inadequate Collateral
If the loan requires collateral (property accepted as security for a loan), the loan application may be denied if the value of that collateral does not provide the creditor with a sufficient margin of protection.

A Short or Temporary Period of Residence
The fact that the applicant lives in the creditor's area for a short period of time or will only live there temporarily may make it difficult to judge the stability and likelihood of repaying the loan. Additionally, if the residence cannot be verified, it may affect the creditor's willingness to grant the loan.
Selecting a Checking Account

Shopping for a checking account is similar to shopping for a new car. Just as competing auto dealers may offer different base prices and option packages, you may find that different banks have various plans available. With the advent of NOW accounts paying interest on your deposits, many banks are offering special packages. Therefore, it is wise to shop around and find a plan that best accommodates your needs.

A checking account is one of the most convenient services offered by a bank because it allows most people to carry little cash but still pay their bills conveniently.

To open a checking account, many banks require two items of identification. Some banks require a driver’s license or identification card (military card or passport). Banks also may have different policies regarding the amount of a deposit required to open a checking account or may request that a savings account also be opened.

To properly maintain a checking account, consumers must be acquainted with bank policies and know the difference between the requirements of Federal and state laws and matters of individual bank policy. Bank policies are not regulated by the FDIC. Consumers must keep in mind that having a checking account is a privilege, not a right, and banks can refuse checking accounts to consumers if they do not comply with the banks’ policies.

For example, if you are not a customer of a bank, the institution may refuse to cash your check or it may charge a fee for this service. Many banks have stringent policies regarding the cashing or depositing of second-party checks and the requirements for endorsement.

Banks may impose various fees for handling checks written against insufficient funds. In most states, there is no limit to the amount banks can charge for returned checks. Also, banks often do not permit checks to be written for a specified time against deposits consisting of checks. Currently in California, for example, time lengths vary from 7 to 20 days. Check with your bank before conducting such a transaction to avoid any confusion concerning the bank’s policy.

A bank may change the terms governing checking accounts at any time or charge additional service fees provided appropriate notice is given to the customer. This is usually done by posting a notice in the lobby of the bank and/or mailing an announcement to the customers with their monthly statements.

If you do not keep accurate records of your account and you continue to have overdrafts, a bank may close your account at any time without prior notice. It is costly and difficult for a bank to continue to handle a checking account that experiences recurring overdrafts.

Proper reconciliation of your account each month usually avoids problems. If you discover an error in your statement or have difficulty in balancing your account, attempt to correct it by reviewing your previous checks and statements. A bank is not required by law to assist a customer in the reconciliation of his or her checking account. Most of the larger banks do not provide this service. However, many banks may assist a customer by furnishing copies of statements and checks. There may be a charge for this service.

It is important that consumers keep accurate records of their checking accounts since the manner in which an individual’s account is maintained may be reported to a creditor making inquiries concerning the consumer’s credit rating.

Carol Saccomonto
Consumer Affairs Asst.

Protecting Your Right To Buy On Credit

Little or No Credit Information on File
Many creditors customarily request information on applicants from a local credit bureau. If the applicant's file at the credit bureau does not contain adequate information or there is no information on file, the creditor may not grant the loan. If a credit bureau maintains a file on an applicant, the applicant can invoke the Fair Credit Reporting Act to require the credit bureau to keep his or her file current. To make sure an applicant's file remains current, he or she should inform the bureau of all credit references.

Delinquent Credit Obligations, Garnishments, Attachments, Foreclosures, Repossessions, Suits, or Bankruptcies
It is difficult for a creditor to extend credit to an applicant who is currently experiencing payment problems. If the applicant is subject to such problems, he or she should include a specific explanation of the situation with the application.

Inability of the Creditor to Grant Credit on the Terms and Conditions Requested
Some creditors may not always be able to grant a loan with the desired repayment terms, interest rate, or collateral requirements. This decision is often based on the size of the loan, funds availability, or expertise of the creditor, as well as restrictions placed on certain creditors by applicable laws.

If an applicant is denied credit, Federal Reserve Regulation B requires the creditor to provide him or her with an adverse action notification that specifies the reasons credit was denied or who to contact to obtain this information. If the applicant does not understand the reason the loan was denied, he or she should contact the loan officer who received the application to discuss the denial of credit. If the applicant is not satisfied with that individual's explanation, the applicant should contact a senior officer of the bank to resolve the matter. If the appli-
La Ley de Declaración de Hipotecas Para Viviendas

A través de los años, las organizaciones de la comunidad y otras organizaciones han estado preocupadas de que muchas instituciones financieras han estado ignorando las necesidades de crédito de prestatarios que cualifican en vecindarios de ingresos bajos y al mismo tiempo han estado invirtiendo sus depósitos fuera de sus comunidades. Esta negación de crédito determinado por las características del vecindario es conocida como “redlining”.

“Redlining” es el término derivado de la práctica de trazar en un mapa una línea roja alrededor de los límites de vecindarios supuestamente indeseables y de rehusar hacer disponible crédito para viviendas en estas áreas.

El Congreso pasó la Ley de Declaración de Hipotecas para Viviendas (“Home Mortgage Disclosure Act”) para asegurar que las necesidades de crédito de los solicitantes que cualifican sean satisfechas. HMDA requiere que las instituciones de depósitos anualmente divulguen las áreas en que están extendiendo crédito para viviendas. La Ley también requiere que cualquier institución de depósitos que posea en activo más de 10 millones y que mantiene una sucursal o la oficina central en un área estadística metropolitana normal (“Standard Metropolitan Statistical Area”) divulgue el número y la cantidad total de todos los préstamos de hipoteca y mejora para viviendas que ha hecho. Un SMSA es un área urbana que es económicamente interdependiente y se determina según la Oficina de Management and Budget define distritos integros, ciudades independientes y pueblos.

El informe de dicha divulgación estará disponible para inspección del público a partir del 31 de marzo, conteniendo información del prestamista y, de ser necesario, una recopila dicha información. A partir de dicha fecha, estos informes estarán disponibles por un periodo de cinco años en la oficina central de la institución, y por lo menos en una de las sucursales en cada SMSA. Según sea solicitado, se requiere que la institución provea información concerniente a la oficina donde están disponibles para inspección los informes de divulgación o se le permita hacer copias durante las horas laborables normales. Por medio de un anuncio en el vestíbulo de la oficina central y las sucursales se informará al público de la disponibilidad de la información de divulgación concerniente a los préstamos hipotecarios.

HMDA requiere que esta información sobre préstamos esté disponible en un repositorio central en cada SMSA. Los grupos interesados sólo necesitan comunicarse con una sola fuente para obtener copias de los informes de divulgación para todas las instituciones que tienen que cumplir con esta Leyen un SMSA dado. Un listado de los repositorios centrales puede obtenerse en el

The Home Mortgage Disclosure Act

Over the years, community organizations and others have been concerned that many financial institutions were ignoring the credit needs of qualified applicants in low income neighborhoods and investing their deposits outside their communities.

This denial of credit based upon neighborhood characteristics is known as “redlining,” a term derived from the practice of drawing a red line on a map around borders of supposedly undesirable neighborhoods and refusing to make housing-related credit available in those areas.

To help ensure that the credit needs of qualified applicants were met, Congress enacted the Home Mortgage Disclosure Act (HMDA). The HMDA requires that depository institutions disclose annually the areas in which they are extending housing-related credit. More significantly, it requires that any depository institution with assets in excess of $10 million and a home or branch office in a Standard Metropolitan Statistical Area (SMSA) disclose the number and total amount of all home mortgages and home improvement loans. An SMSA is an economically interdependent urban area defined in terms of entire counties, independent cities and/or towns by the Office of Management and Budget.

Disclosure statements must be made available to the public by March 31 following the calendar year for which the data are compiled. The disclosure statements are to be available for five years from that date at the institution’s home office, and in at least one branch office in each SMSA where it has an office other than the SMSA in which the home office is located. Upon request, the institution is required to provide information regarding the office where its disclosure statements are available and to make the statements available for inspection or copying during normal business hours. In addition, the public is to be advised of the availability of mort-gage loan data through the posting of a notice in the lobbies of the home and branch offices.

The HMDA also requires that this loan data be made available at a central repository in each SMSA. Therefore, interested parties need only contact one source to obtain copies of the disclosure statements for all covered depository institutions in a given SMSA. A listing of central repositories can be obtained from the Federal Financial Institutions Examination Council, Washington, D.C. 20219.

Robert Fanning
Review Examiner

Protecting Credit

(Continued from Page 2)

cannot be dissatisfied and disagrees with the bank’s policy or feels that he or she has been discriminated against on one of the prohibited bases mentioned earlier, he or she should contact the nearest Regional Office of the Federal Deposit Insurance Corporation. The consumer affairs and civil rights review examiner in that office will assist the applicant in resolving the complaint if it involves an FDIC-supervised bank or refer the applicant to the appropriate agency.

Dave Moulton
Review Examiner
What Happens To Your Check?

You've paid the utility bills, the mortgage, the auto loan, and the charge accounts by writing checks. The following month, the same checks used to pay those bills are returned to you with bank endorsements on the back.

What happened to your checks? How were they returned to you? Checks go through several procedures from the time you write them until the time they are returned with your monthly bank statement.

When you (the drawer) write a check, you are instructing your bank (the drawee) to pay the person named on the check (the payee) a specific sum (amount of the check) out of your money on deposit with the bank. As soon as the payee deposits or cashes your check at a bank, the check begins to go through a series of basic processing steps called the collection system.

First, the check goes through proof and sorting procedures to verify that no errors have been made. The proof procedure determines that the check is properly endorsed, has not been altered in any way, and is not postdated. The sorting procedure includes categorizing checks for routing into three basic categories: "on us" checks, "other local" checks and "out-of-town" checks. An "on us" check is a check that is drawn on the bank at which it is deposited or cashed. "Other local" checks are checks which are drawn on banks in the same city or area. "Out-of-town" checks are checks that are drawn in other parts of the country.

If your check is an "on us" check, it is posted to (deducted from) your account immediately and returned to you with your monthly bank statement. The other categories of checks will eventually be posted to your account, but have to be processed through a longer route.

If your check is deposited in another local bank ("other local" check), it is routed through a process called "clearings." If it is deposited in an out-of-town bank, it is routed from proof to a process called "transit." The procedures of clearings and transit are very similar; the bank sends the check to the drawer bank for collection. However, other banks are responsible for different categories of checks and they use different methods for collecting them.

The local "clearinghouse" is an important part of the check collection operation. Banks send messengers to the clearinghouse daily to deliver and receive bundles of checks. A bundle for each of the other local banks with a list of the amounts due from other banks is delivered to the clearinghouse. The checks are exchanged and each bank is credited for other local checks that it brings for collection. Each bank is also debited (charged) for checks that are delivered for collection by other banks. If a bank has checks drawn on it amounting to more than it has in local checks on other banks, it owes the clearinghouse the difference. If the reverse is true, the clearinghouse owes the bank the difference. The clearinghouse receives exactly the same amount of money as it pays out. Years ago, the differences between the banks were settled in cash, but today net settlements are made in demand deposit accounts maintained by clearinghouse banks.

After your bank has received the checks from the clearinghouse, the checks are posted immediately to individual accounts and your checks are returned with your monthly statement.

The third category of checks that a bank receives for deposit or to cash is out-of-town checks. To collect these checks, transit must send them to the city where the drawee bank is located. When a bank collects an out-of-town check, it considers the speed and cost of collection. The methods of collection are: through a correspondent bank, through a Federal Reserve bank, or by direct presentment. If a bank mails a bundle of checks drawn on an out-of-town bank directly to the drawee bank, it will be collecting these checks through direct presentment. Many banks have special arrangements with banks in other parts of the country to help collect out-of-town checks. Banks with this special arrangement are called "correspondent banks." The correspondent bank then processes the checks through the local clearinghouse or through direct presentment.

Most out-of-town checks are collected through the Federal Reserve System, which is composed of 12 Federal Reserve District banks that serve other commercial banks. For example, here's what would happen if you were to write a check drawn on your Rochester, New York, bank to a clothing store located in Sacramento, California. The clothing store deposits the check in an account at a Sacramento bank. The Sacramento bank deposits the check for credit in its account at the Federal Reserve Bank of San Francisco, which credits the Sacramento bank's deposit account and the Sacramento bank in turn credits the clothing store's account. The Federal Reserve Bank of San Francisco sends the check to the Federal Reserve Bank of New York for collection. The Federal Reserve Bank of New York pays the Federal Reserve Bank of San Francisco by payment from its share in what is called the "Interdistrict Settlement Fund." The Federal Reserve Bank of New York forwards the check to your bank in Rochester, which deducts the amount of the check from your account. At the same time, the Federal Reserve Bank of New York deducts the amount of the check from the deposit account of the Rochester Bank with the Federal Reserve Bank. The checks are physically processed through each procedure. They may be sent by road, rail, or air, depending on which is the fastest means of transportation.

(Continued on Page 5)
Questions From Bank Customers

Q. Can a bank charge a fee for copies of cancelled checks?
A. Yes. Banks usually provide cancelled checks at no cost with monthly statements, but copies would probably be furnished for a fee.

Q. Does the FDIC insure contents in a safe-deposit box, and if the bank fails will depositors have immediate access to these contents?
A. The FDIC does not insure contents in a safe-deposit box, but if a failed bank is taken over by another bank, items may be retrieved when the bank reopens on the following business day. If the bank is closed, individuals are given access to their boxes at the same time depositors are paid.

Q. Can a bank refuse access to a deceased relative's bank records?
A. Yes. Usually a court order is needed to obtain access to the records.

Q. If a customer has several old passbooks (7 years or older) on several banks that are no longer in existence, is there a way the money can be collected?
A. Contact the State Treasurer’s Office in the state where the banks were incorporated as it normally handles escheated accounts. An escheated account represents money that is not claimed and after a period of time becomes property of the state.

What Happens To Your Check?

(Continued from Page 4)

Some checks which are processed through the collection system must be returned by the drawee banks because they are improperly endorsed, drawn on accounts with insufficient funds, forged, or written on nonexistent accounts. Others may be returned because they are postdated or because the drawee has stopped payment. These checks are re-turned by essentially reversing the process by which they are normally collected. Many bank customers can determine how a check is routed through the collection system by studying the bank endorsements on the back of the check.

Simona Frank
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