Bank Products

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What's Insured and What's Not

In their search for higher returns, many cus-tomers of banks and credit unions are look-ing beyond traditional savings accounts to investment products such as mutual funds and annuities. Mutual funds and annuities have their advantages, but it's important to understand how they work and what risks are involved.

Deposits vs. Investments

Any money you have in savings and checking accounts or in certificates of deposit (CDs) is known as a deposit. Your financial institution is committed to returning all of your deposits (plus interest) whenever you ask. You can even take money out of a CD before it matures, however, you will have to pay a penalty for early withdrawal.

Your institution is also required to carry government insurance on your deposits up to $100,000. The insurer is usually the Federal Deposit Insurance Corporation (FDIC). Contact your financial institution if you have specific questions about your insured deposits.

Financial institutions can also provide investment products like mutual funds and annuities to their customers. Your bank or credit union may sell you this type of product, but it is not obligated to pay you back for any losses you may have if the investment is not successful.

Equally important, the U.S. government does not insure you against investment losses, even if you purchased the product at a bank or credit union.

Investing in a Mutual Fund

When you invest in a mutual fund, your money is put together with the money of other investors and is used to purchase a variety of securities such as stocks, bonds, and other financial instruments.

Mutual funds are run by investment professionals who decide which investments to buy or sell for the fund. Their decisions are guided by the fund's investment goals.

For example, some mutual funds are designed for people who want to have easy access to their money and invest only for a short time. These funds invest primarily in government securities or very short-term bank CDs, where the investment risks are moderate.

Other mutual funds appeal to people who are willing to take on more risk with the goal of a higher return. Such funds invest primarily in corporate or municipal bonds.

Most mutual funds, however, are more diverse, offering a mix of investments. A typical fund portfolio includes between 30 and 300 different stocks, bonds, and other instruments.

Investing in an Annuity

When you buy an annuity, the bank or insurance company invests your money and agrees to pay you back according to the annuity's contract terms. The annuity can be part of a long-term savings plan for retirement. Like mutual funds, they are not insured by the U.S. government or by the bank where you buy them.

Some annuities help you set aside money on a tax-deferred basis. You don't pay taxes on the income earned by this money until you retire. Other annuities allow you to receive income immediately. However, the amount of income you will receive can go up or down with changes in financial markets and the income won't be tax deferred.

With annuities, the annuity contract spells out the terms of your agreement. It will tell you whether or not you can transfer your contract to another company. Also, surrender charges or penalties apply when funds are withdrawn before a designated period of time has passed. Surrender charges can apply from five to ten years or more. You may want to consider meeting with a qualified tax advisor or financial planner to learn more about annuities.

Insured	Not Insured
Statement Savings Accounts	Mutual Funds
Passbook Savings Accounts	Annuities
Money Market Deposit Accounts (MMDAs)	
Holiday Savings Accounts	
Regular Checking Accounts	
NOW Accounts	
Certificates of Deposits (CDs)	

Buying through Your Institution

Not all banks and credit unions sell investment products, but many do. Some simply rent lobby space to outside companies. Other institutions sell what are called proprietary funds, which are sponsored by an outside company but receive investment advice from the institution itself. Private label funds, meanwhile, are sponsored and managed through an outside company but are only sold through one bank or credit union.

Some mutual funds and annuities have names that sound very much like names of financial institutions. But no mutual funds or annuities are insured by either your institution or the U.S. government. As an investor, you should be aware that these funds have different degrees of risk and could possibly lead to a loss of some or all of your principal.

Under the law, any institution selling you shares in a mutual fund or annuity must inform you that:

- Mutual funds and annuities are not insured by the Federal Deposit Insurance Corporation (FDIC) or guaranteed by the bank or credit union that sells them.
- Mutual funds and annuities involve an investment risk, including the possibility of lost principal.

Federal regulations also require that:

- Your bank or credit union must tell you if it serves the fund in an advisory capacity.
- Banks that sell mutual funds or annuities must clearly distinguish between regular bank teller windows and mutual fund or annuity sales windows.
- Employees who accept regular deposits are not allowed to offer investment advice.

For More Information

The Federal Reserve Bank of San Francisco has several other consumer brochures. These brochures are posted on our web site at: http://www.frbsf.org.

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For information on mutual funds, contact the Investment Company Institute. They also publish a *Directory of Mutual Funds* that lists general information about mutual funds.

Investment Company Institute
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For information on annuity investments, contact the National Association for Variable Annuities (NAVA).

National Association for Variable Annuities
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Reston, VA 20190
http://www.navanet.org
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