



Investment GUIDE with Eric Tyson

Questions & Answers for
Financial Success

Online Banking



Question

I see ads for online banks a lot on websites I visit. What are your thoughts about using a Web-based bank?

Answer

The attractions of banking online are pretty obvious. For starters, it can be enormously convenient, as you bank when you wish on your computer and via mail. You don't have to race around during your lunch break to find a local bank branch. And, thanks to their lower overhead, the best online banks are able to offer competitive interest rates and account terms to their customers.

But, you need to do your homework before committing to do business with just any online or traditional brick-and-mortar bank. Most folks know to look for a bank that participates in the U.S. government-operated Federal Deposit Insurance Corporation program. Otherwise, if the bank fails, your money on deposit isn't protected. FDIC covers your deposits up to \$250,000.

Some online banks are able to offer higher interest rates because they are based overseas and therefore not participating in the FDIC program. (Banks must pay insurance premiums into the FDIC fund, which adds, of course, to a bank's costs.) Another risk for you is non-covered banks taking excessive risks with their business to be able to pay depositors higher interest rates.

When considering doing business with an online bank or a smaller bank you've not heard of, you should be especially careful to ensure that the bank is covered under FDIC. And, don't simply accept the bank's

word for it or their displaying the FDIC logo in their offices or on their website.

Check the FDIC's website database of FDIC-insured institutions to see if the bank you're considering doing business with is covered. Search by going to the FDIC's Bank Find page (www2.fdic.gov/idasp/main_bankfind.asp). You can search by bank name, city and state or ZIP code of the bank. For insured banks, you can see the date it became insured, its insurance certificate number, the main office location for the bank (and branches), its primary government regulator and other links to detailed information about the bank. In the event that your bank does not appear on the FDIC list but the bank claims FDIC coverage, contact the FDIC at 877-275-3342.

In addition to ensuring that a bank is covered by FDIC, also investigate:

What is the bank's reputation for its services? This may not be easy to discern, but at a minimum, you should conduct an Internet search of the bank's name along with the words "complaints" or "problems," and examine the results.

How accessible are customer-

service people at the bank? Is a phone number provided on the bank's website? How hard is it to reach a live person? Are the customer-service representatives you reach knowledgeable and service-oriented?

Understand the process and options for getting your money out. This is a good issue to discuss and ask of the bank's customer-service people.

Inquire what fees are charged for particular services? This should be posted on the bank's website in a section called something like "account terms" or "disclosures." Also, look for the "Truth in Savings Disclosures," which answers relevant account questions in a standardized format. **N**

Eric Tyson is a best-selling author (Personal Finance for Dummies, Investing for Dummies, Mutual Funds for Dummies, Home Buying for Dummies). He is read by more than four million people nationwide. A management consultant to Fortune 500 financial service firms, he also founded a counseling firm providing financial advice to non-wealthy investors, teaching that "one must live within one's means as a prerequisite to building wealth."