

Electronic Banking

For many consumers, electronic banking means 24-hour access to cash through an automated teller machine (ATM) or Direct Deposit of paychecks into checking or savings accounts. But electronic banking now involves many different types of transactions.

Electronic banking, also known as electronic fund transfer (EFT), uses computer and electronic technology as a substitute for checks and other paper transactions. EFTs are initiated through devices like cards or codes that let you, or those you authorize, access your account. Many financial institutions use ATM or debit cards and Personal Identification Numbers (PINs) for this purpose. Some use other forms of debit cards such as those that require, at the most, your signature or a scan. The federal Electronic Fund Transfer Act (EFT Act) covers some electronic consumer transactions.

Electronic Fund Transfers

EFT offers several services that consumers may find practical:

Automated Teller Machines or 24-hour Tellers are electronic terminals that let you bank almost any time. To withdraw cash, make deposits, or transfer funds between accounts, you generally insert an ATM card and enter your PIN. Some financial institutions and ATM owners charge a fee, particularly to consumers who don't have accounts with them or on transactions at remote locations. Generally, ATMs must tell you they charge a fee and its amount on or at the terminal screen before you complete the transaction. Check the rules of your institution and ATMs you use to find out when or whether a fee is charged.

Direct Deposit lets you authorize specific deposits, such as paychecks and Social Security checks, to your account on a regular basis. You also may pre-authorize direct withdrawals so that recurring bills, such as insurance premiums, mortgages, and utility bills, are paid automatically.

Pay-by-Phone Systems let you call your financial institution with instructions to pay certain bills or to transfer funds between accounts. You must have an agreement with the institution to make such transfers.

Personal Computer Banking lets you handle many banking transactions via your personal computer. For instance, you may use your computer to view your account balance, request transfers between accounts, and pay bills electronically.

Point-of-Sale Transfers let you pay for purchases with a debit card, which also may be your ATM card. The process is similar to using a credit card, with some important exceptions. While the process is fast and easy, a debit card purchase transfers money - fairly quickly - from your bank account to the store's account. So it's important that you have funds in your account to cover your purchase. This means you need to keep accurate records of the dates and amounts of your debit card purchases and ATM withdrawals in addition to any checks you write. Your liability for unauthorized use, and your rights for error resolution, may differ with a debit card.

Electronic Check Conversion converts a paper check into an electronic payment at the point of sale or elsewhere, such as when a company receives your check in the mail. In a store, when you give your check to a store cashier, the check is processed through an electronic system that captures your banking information and the amount of the check. Once the check is processed, you're asked to sign a receipt authorizing the merchant to present the check to your bank electronically and deposit the funds into the merchant's account. You get a receipt of the electronic transaction for your records. When your check has been processed and returned to you by the merchant, it should be voided or marked by the merchant so that it can't be used again. In the mail-in situation, you should still receive advance notice from a company that expects to process your check electronically.

Be especially careful in telephone transactions, which also could involve e-checks. A legitimate merchant should explain the process and answer any questions you may have. The merchant also should ask for your permission to debit your account for the item you're purchasing or paying on. However, because telephone e-checks don't occur face-to-face, you should be cautious with whom you reveal your bank or checking account information. Don't give this information to sellers with whom you have no prior experience or with whom you have not initiated the call, or to sellers who seem reluctant to discuss the process with you.

Not all electronic fund transfers are covered by the EFT Act. For example, some financial institutions and merchants issue cards with cash value stored electronically on the card itself. Examples include prepaid telephone cards, mass transit passes, and some gift cards. These "stored-value" cards, as well as transactions using them, may not be covered by the EFT Act. This means you may not be covered for the loss or misuse of the card. Ask your financial institution or merchant about any protections offered for these cards.

Disclosures

To understand your legal rights and responsibilities regarding your EFT account, read the documents you receive from the financial institution that issued your "access device." That is, a card, code or other means of accessing your account to initiate electronic fund transfers. Although the means varies by institution, it often involves a card and/or a PIN. No one should know your PIN except you and select employees of the financial institution.

Before you contract for EFT services or make your first electronic transfer, the institution must tell you the following information in a form you can keep.

A summary of your liability for unauthorized transfers.

The telephone number and address of the person to be notified if you think an unauthorized transfer has been or may be made, a statement of the institution's "business days" (which is, generally, the days the institution is open to the public for normal business), and the number of days you have to report suspected unauthorized transfers.

The type of transfers you can make, fees for transfers, and any limits on the frequency and dollar amount of transfers.

A summary of your right to receive documentation of transfers, to stop payment on a pre-authorized transfer, and the procedures to follow to stop payment.

A notice describing the procedures you must follow to report an error on a receipt for an EFT or your periodic statement, to request more information about a transfer listed on your statement, and how long you have to make your report.

A summary of the institution's liability to you if it fails to make or stop certain transactions.

Circumstances under which the institution will disclose information to third parties concerning your account.

A notice that you may be charged a fee by ATMs where you don't have an account.

In addition to these disclosures, you will receive two other types of information for most transactions: terminal receipts and periodic statements. Separate rules apply to passbook accounts from which pre-authorized transfers are drawn. The best source of information about those rules is your contract with the financial institution for that account. You're entitled to a terminal receipt each time you initiate an electronic transfer, whether you use an ATM or make a point-of-sale electronic transfer. The receipt must show the amount and date of the transfer, and its type, such as "from savings to checking." When you make a point-of-sale transfer, you'll probably get your terminal receipt from the salesperson.

You won't get a terminal receipt for regularly occurring electronic payments that you've pre-authorized, like insurance premiums, mortgages, or utility bills. Instead, these transfers will appear on your periodic statement. If the pre-authorized payments vary, however, you should receive a notice of the amount that will be debited at least 10 days before the debit takes place.

You're also entitled to a periodic statement for each statement cycle in which an electronic transfer is made. The statement must show the amount of any transfer, the date it was credited or debited to your account, the type of transfer and type of account(s) to or from which funds were transferred, and the address and telephone number for inquiries. You're entitled to a quarterly statement whether or not electronic transfers were made.

Keep and compare your EFT receipts with your periodic statements the same way you compare your credit card receipts with your monthly credit card statement. This will help you make the best use of your rights under federal law to dispute errors and avoid liability for unauthorized transfers.

Errors

You have 60 days from the date a periodic statement containing a problem or error was sent to you to notify your financial institution. The best way to protect yourself if an error occurs - including erroneous charges or withdrawals from an account, or for a lost or stolen ATM or debit card - is to notify the financial institution by certified letter, return receipt requested, so you can prove that the institution received your letter. Keep a copy of the letter for your records.

If you fail to notify the institution of the error within 60 days, you may have little recourse. Under federal law, the institution has no obligation to conduct an investigation if you've missed the 60-day deadline.

Once you've notified the financial institution about an error on your statement, it has 10 business days to investigate. The institution must tell you the results of its investigation within three business days after completing it and must correct an error within one business day after determining that the error has occurred. If the institution needs more time, it may take up to 45 days, in most situations, to complete the investigation - but only if the money in dispute is returned to your account and you're notified promptly of the credit. At the end of the investigation, if no error has been found, the institution may take the money back if it sends you a written explanation.

An error also may occur in connection with a point-of-sale purchase with a debit card. For example, an oil company might give you a debit card that lets you pay for gas purchases directly from your bank account. Or you may have a debit card that can be used for various types of retail purchases. These purchases will appear on your periodic statement from the bank. In case of an error on your account, however, you should contact the card issuer (for example, an oil company or a bank) at the address or phone number provided by the company. Once you've notified the company about the error, it has 10 business days to investigate and tell you the results. In this situation, it may take up to 90 days to complete an investigation. If no error is found at the end of the investigation, the institution may take back the money if it sends you a written explanation.

Lost or Stolen ATM or Debit Cards

If your credit card is lost or stolen, you can't lose more than \$50. If someone uses your ATM or debit card without your permission, you can lose much more.

If you report an ATM or debit card missing to the card issuer before it's used without your permission, you can't be held responsible for any unauthorized withdrawals.

If unauthorized use occurs before you report it, the amount you can be held responsible for depends upon how quickly you report the loss to the card issuer.

If you report the loss within two business days after you realize your card is missing, you won't be responsible for more than \$50 for unauthorized use.

If you fail to report the loss within two business days after you realize the card is missing, but do report its loss within 60 days after your statement is mailed to you, you could lose as much as \$500 because of an unauthorized transfer.

If you fail to report an unauthorized transfer within 60 days after your statement is mailed to you, you risk unlimited loss. That means you could lose all the money in your account and the unused portion of your maximum line of credit established for overdrafts.

If you failed to notify the institution within the time periods allowed because of an extenuating circumstance, such as lengthy travel or illness, the issuer must reasonably extend the notification period. In addition, if state law or your contract imposes lower liability limits, those lower limits apply instead of the limits in the federal EFT Act.

Once you report the loss or theft of your ATM or debit card, you're no longer responsible for additional unauthorized transfers occurring after that time. Because these unauthorized transfers may appear on your statements, however, you should carefully review each statement you receive after you've reported the loss or theft. If the statement shows transfers that you did not make or that you need more information about, contact the institution immediately, using the special procedures provided for reporting errors.

Limited Stop-Payment Privileges

When you use an electronic fund transfer, the EFT Act does not give you the right to stop payment. If your purchase is defective or your order is not delivered, it's as if you paid cash. That is, it's up to you to resolve the problem with the seller and get your money back.

There is one situation, however, when you can stop payment. If you've arranged for regular payments out of your account to third parties, such as insurance companies, you can stop payment if you notify your institution at least three business days before the scheduled transfer. The notice may be oral or written, but the institution may require a written follow-up within 14 days of the oral notice. If you fail to provide the written follow-up, the institution's responsibility to stop payment ends.

Although federal law provides only limited rights to stop payment, individual financial institutions may offer more rights or state laws may require them. If this feature is important to you, you may want to shop around to be sure you're getting the best "stop-payment" terms available.

Other Rights

The EFT Act protects your right of choice in two specific situations regarding use of electronic fund transfers: First, the Act prohibits financial institutions from requiring you to repay a loan by electronic transfer. Second, if you're required to receive your salary or government benefit check by EFT, you have the right to choose your institution.

Suggestions

If you decide to use EFT, keep these tips in mind:

Take care of your ATM or debit card. Know where it is at all times; if you lose it, report it as soon as possible.

Choose a PIN for your ATM or debit card that's different from your address, telephone number, Social Security number, or birthdate. This will make it more difficult for a thief to use your card.

Keep and compare your receipts for all types of EFT transactions with your periodic statements. That way, you can find errors or unauthorized transfers and report them.

Make sure you know and trust a merchant before you share any bank account information or pre-authorize debits to your account. Be aware that some merchants use electronic processing of your check if you sign a receipt authorizing the transaction.

Where to File Complaints

If you think a financial institution or company has failed to fulfill its responsibilities to you under the EFT Act, speak up. In addition, you may wish to complain to the federal agency listed below that has enforcement jurisdiction over that company.

State Member Banks of the Federal Reserve System
Consumer and Community Affairs
Board of Governors of the Federal Reserve System
20th & C Streets, NW, Mail Stop 801
Washington, DC 20551
www.federalreserve.gov

National Banks
Office of the Comptroller of the Currency
Compliance Management
Mail Stop 7-5
Washington, DC 20219
www.occ.treas.gov

Federal Credit Unions
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314
www.ncua.gov

Non-Member Federally Insured Banks
Office of Consumer Programs
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
www.fdic.gov

Federally Insured Savings and Loans, and Federally Chartered State Banks
Consumer Affairs Program
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
www.ots.treas.gov

Other Credit and Debit or ATM Card Issuers

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

FEDERAL TRADE COMMISSION FOR THE CONSUMER
1-877-FTC-HELP www.ftc.gov

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