questions about the "suitability" of a particular mutual fund for their circumstances. What are your plans and what investments do you need to achieve them? Do you need stability, growth or a steady income stream from your investment? How much risk can you afford to assume in pursuit of higher returns? These are the questions that will help guide you to the type of mutual fund that is best for you. Most investors will find that it makes sense to diversify their portfolio, rather than placing all of their nest eggs in one "basket."

5 Always "comparison shop" for mutual funds... especially if you are a first-time investor. Many bank customers buying mutual funds are novices. Such individuals are likely to rely on a sales pitch, rather than doing their own homework. Sound difficult? It isn't if you follow some simple steps! First, avoid the trap of relying on verbal assurances from sales people and get everything in writing. Second, shop around and see what mutual funds are being offered at other banks and brokerage firms. Just because you have your checking and savings account at a bank does not mean you are obligated to buy uninsured investment products there.

6 Make sure that you know about all fees and charges associated with your mutual fund. Most bank customers who buy mutual funds have a poor understanding of the fees and charges involved in their investment. Always make sure that you know what an investment is going to cost before you enter into it. All fees associated with a mutual fund are summarized in the fee table in the prospectus. A front-end "load" (or asset-based sales charge) may not exceed 8.5 percent of the total purchase price and usually serves as a commission to compensate the broker or other sales agent who assists you. Many banks sell mutual funds featuring these front-end "loads." You may be able to lower or eliminate this sales charge by buying the same or comparable fund directly from an investment company. A back-end charge (or contingent deferred sales charge) declines over time and is collected at redemption, when you take money out of your mutual fund account. Management fees (sometimes referred to as "investment advisory fees" or "account maintenance fees") are imposed by fund advisors in order to cover the cost of overseeing the mutual fund. So-called "12b-1" fees are used to pay for the marketing and distribution of the mutual finds. Some mutual funds have no front-end load, but make up for it by imposing back-end charges and a 12b-1 fee. Make sure that you understand all fees and charges before investing.

7 Look "under the hood" of any mutual fund you consider buying. Too many first-time investors rely almost exclusively on sales pitches and slick promotional materials in buying a mutual fund. A prospectus disclosure document is available for all mutual funds. The prospectus can be the key to your understanding of the mutual fund and whether is a good match for you. Examine the investment objective section and compare it to what makes the most sense for you. Review the types of risk associated with the mutual fund. Look at the fees and compare them to similar funds with comparable objectives.

Important...

This discussion is not intended to be a comprehensive introduction to mutual fund investing. A number of excellent consumer guides on mutual funds are available at little or no cost from the Investment Company Institute (ICI). For more information, call ICI at 202-326-5800. This document has been prepared by NASAA to help clear up misconceptions in the minds of consumers about mutual funds and other uninsured products sold at banks. Its purpose is not do discourage any suitable individual who is considering investing in mutual funds at a bank, brokerage firm or investment company from doing so. Mutual funds are important part of the financial picture of most investors.

Where to complain...

If you have a problem with your mutual fund or do not understand something that has been mailed to you about the investment, contact the brokerage firm unit in your bank. If this step does not satisfy you, ask the bank to look into the matter. An unresolved problem involving your investment or potential misconduct on the part of a broker or other sales agent will require additional steps. For help in dealing with these matters, contact your state securities agency, which oversees the conduct of brokers.

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Tips for Consumers

Mutual Funds Sold at Banks

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There are no guarantees, no bail-outs and no insurance "safety nets" to protect you against losses in the mutual funds and stocks now being sold at an increasing number of U.S. financial institutions. Many Americans mistakenly assume that all products sold within the four walls of a bank are protected by the Federal Deposit Insurance Corporation (FDIC).

What are the facts?

Consumers who buy mutual funds, stocks and annuities at banks do not benefit from the Federal Deposit Insurance Corporation (FDIC) coverage available for deposits of up to $250,000 per customer. This means that investors are not eligible for the same federal insurance that protects depositors who put their money in traditional bank products, such as savings accounts and certificates of deposit (CDs)*. And just as there is no insurance coverage from the federal government for mutual fund investors who lose money, your bank is not obligated in any way to return all of what you first invested in an uninsured product. In other words, you face exactly the same risk in buying uninsured products at a bank that you do when making such investments through a brokerage firm, investment company or insurance company. There is no guarantee that you will get back what you invest in uninsured products sold at banks.

Does this mean that you should avoid buying uninsured investments at your bank? Not at all. Banks are now another option for consumers who have money to invest in mutual funds, stocks and annuities and understand the risks in doing so.

What do you need to know first?

The "tip sheet" you are now reading has been prepared for bank customers contemplating the purchase of mutual funds. Most of the "self defense" advice set out here will also prove useful if you consider the purchase at a bank of the other major uninsured products: stocks and annuities. This document has been designed to help clear up the major areas of consumer confusion about uninsured bank products identified in a major national public opinion survey conducted by AARP and the North American Securities Administrators Association (NASAA). In the U.S., NASAA is the national voice of the 50 states securities regulators.

How mutual funds work...

Mutual funds offered at banks are no different from those sold directly by investment companies or by salespeople at brokerage firms. Like any other uninsured investment, mutual funds involve risk, which is what makes it possible for an investor to make money. The same risk also means that you can lose money you've invested in a mutual fund. (For discussion of risk in money market mutual funds, see below). Unlike a certificate of deposit, which offers a fixed return for a specific period of time, mutual funds may go up or down in value during every day of trading.

A mutual fund is a company that pools the financial resources of many investors. Instead of just buying a single security, the mutual fund buyer gets a proportionate share of the fund's holdings. (Mutual funds sold at banks include both stock and income funds.) Mutual fund managers decide when to buy, sell and hold investments in the securities that go into the funds. The idea here for small investors is that mutual funds help to minimize risk through diversification and also make available the expertise of the fund manager. Each day, the fund must determine the value of the stocks in its portfolio. The overall value of the "basket" of securities divided by the number of outstanding shares in the mutual fund yields the Net Asset Value or NAV. The NAV is what tells you how much each share of a mutual fund is worth.

Money market funds are a type of mutual fund. Among all uninsured products sold by banks, money market mutual funds are the investments consumers are most likely to believe are FDIC insured. They are not. (Money market mutual funds should not be confused with interest-bearing "money market accounts," which are insured by the FDIC. Make sure that you are clear on which type of "money market" you are considering.) Another special category: so-called "insured" mutual funds in the tax-exempt municipal fund market. Do not be confused by the reference to insurance, which is not extended by the FDIC. The limited, private insurance in such funds extends only to credit risk for the mutual fund issuer and is not intended to return money to investors in the event of a decline in the value of mutual fund shares.

Avoiding confusion about bank mutual funds...

Mutual funds are sold at banks in two major ways. Some banks rent out space in their lobbies so that outside brokerage firms and investment companies can set up shop. Others make arrangements to offer "private label" mutual funds, which may be very closely linked to the identity of the bank. (Be careful! Some mutual funds offered through banks bear names that are confusingly similar to those of the financial institutions.) The AARP/NASAA survey identified the following messages as being critical to clearing up the extensive misconceptions and uncertainty that now exist on the part of bank customers when it comes to mutual funds sold at financial institutions:

*certificates of deposit are distinguishable from market-linked certificates of deposit

1 Keep in mind that mutual funds (including money market funds) sold by banks are not insured by the federal government. No mutual funds are insured by the FDIC. Only insured bank products (such as savings accounts and certificates of deposit) are eligible for FDIC protection. You can lose money invested in a mutual fund, whether it is sold at a bank, brokerage firm or directly from an investment company.

2 Beware of advertising and mutual fund names that blur the line between a bank's insured and uninsured products. Your bank is not obligated to cover losses suffered in a mutual fund investment that you buy at it. Some bank advertising and mutual fund names may leave you with the impression that there is no difference in the protection offered for uninsured and insured products. Make sure that you understand whether the product you are purchasing is insured or uninsured.

3 Recognize that mutual funds (including those sold at banks) are very different from fixed-rate investments, such as CDs. The purchaser of a CD is promised a specific rate of return by a certain date. Additionally, this product is covered by the FDIC. By contrast, mutual fund prices can go up and down every day, past performance is no guarantee of future results and the investment is completely uninsured. A mutual fund can return far more to you than a savings account or CD, but this potential for gain is only made possible by risk, which is what also exposes you to the potential loss of your principal. (Keep in mind that money market mutual funds have historically involved less risk than other mutual funds.)

4 Determine your investment objectives and risk tolerance and then find a mutual fund that is a good match. Professionals selling mutual funds through banks are supposed to determine if an investment is appropriate for you, but many investors indicate that they are not being asked