FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7285
December 5, 1973]

"TRUTH IN SAVINGS"

Request for Public Comment

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was issued December 3 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today invited public comment as part of a study it is undertaking in connection with Congressional review of the so-called "Truth in Savings" bill.

This legislation would require financial institutions to disclose the "annual percentage rate" and other terms that apply to their savings plans. The subcommittee of the Senate Committee on Banking, Housing and Urban Affairs that is considering the legislation asked the Board to study the "feasibility and desirability of requiring uniform methods of interest rate computation on savings accounts."

In this connection, the Board requested public comment on the following questions:

1. If a single method of interest rate computation were required on savings accounts, what would be the advantages and disadvantages — including competitive effects — to consumers and to financial institutions?

2. Assuming that a single method were required, which method is the most appropriate? Please indicate preferences and the reasons for your preference with respect to frequency of compounding and crediting, method of calculating the balance on which interest is computed, such as low balance, LIFO, FIFO or day-of-deposit to day-of-withdrawal, and other terms.

3. What are the advantages and disadvantages — including cost and competitive considerations — of permitting two or more methods of computation rather than a single method?

During hearings conducted earlier this year by the Senate Subcommittee, concern was expressed that the wide variety of methods used in computing interest makes it impossible to devise a single annual rate that would provide an accurate basis for comparing yields on different savings plans.

Variables such as the balance used in the computation of interest, grace periods, service charges and requirements for minimum balances can have a substantial effect on the yield received by a depositor.

For example, the same hypothetical savings account could yield interest ranging from about $30 to $75 over a six-month period using the same annual rate but varying the other elements in the calculation.

Public comment on these matters should be forwarded to the Secretary of the Board in Washington.

Printed on the reverse side is the text of the Board of Governors' notice in this matter. Comments thereon should be submitted by January 31, 1974, and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

(OVER)

FEDERAL RESERVE SYSTEM

"Truth in Savings"

A subcommittee of the Senate Committee on Banking, Housing and Urban Affairs in June held hearings on proposed "Truth in Savings" legislation (S. 1052). The legislation would require financial institutions to disclose the "annual percentage rate" and other terms applicable to their savings plans. The testimony received at the hearing generally supported the concept of full and uniform disclosure as a means of assisting consumers to understand their accounts better and to enable them to shop among competing plans. However, concern was expressed that the multiplicity of methods of computing interest, which may have a significant effect upon the actual dollars earned depending upon activity patterns, makes it impossible to devise a single annual rate that would provide an accurate basis for comparing different savings account plans. Although the annual rate may reflect differences in compounding periods (continuous, daily, monthly, etc.), it would not be affected by the balances to which the rate is applied (*e.g.*, low balance, first-in-first-out, last-in-first-out, day-of-deposit to day-of-withdrawal), grace periods for deposits and withdrawals, requirements for minimum balances and end of period balances, service charges for withdrawals and other factors. Several of these variables have a substantial effect on yield, depending upon the pattern of activity of an individual's savings account transactions. For example, a study has shown that a given set of savings account transactions over a six month period could result in interest payments ranging from about $30 to over $75 using a six percent annual rate in each case but varying the other elements of the calculation.

As a result of these concerns, the Board of Governors of the Federal Reserve System has been requested by members of the Senate Committee to study the "feasibility and desirability of requiring uniform methods of interest rate computation on savings accounts." A requirement for uniform methods would make the interest rate the only variable, and would simplify disclosures required under any possible Truth in Savings legislation. In connection with that study the Board desires to receive public comment on the following questions:

1. If a single method of interest rate computation were required on savings accounts, what would be the advantages and disadvantages — including competitive effects — to consumers and to financial institutions?

2. Assuming that a single method were required, which method is the most appropriate? Please indicate preferences and the reasons for your preference with respect to frequency of compounding and crediting, method of calculating the balance on which interest is computed, such as low balance, LIFO, FIFO or day-of-deposit to day-of-withdrawal, and other terms.

3. What are the advantages and disadvantages — including cost and competitive considerations — of permitting two or more methods of computation rather than a single method?

Comments on any of these questions and any other relevant comments of observations should be forwarded to the Secretary of the Board of Governors of the Federal Reserve System, Washington, D.C., 20551, by January 31, 1974.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM