**FEDERAL RESERVE BANK
OF NEW YORK**

At. Cir. No. 9469(a)

March 17, 1983

*To All Member Banks in the
Second Federal Reserve District:*

Enclosed is a copy of the text of a letter from the Board of Governors of the Federal Reserve System regarding the advertising of interest rates on Money Market Deposit Accounts and NOW accounts of $2,500 or more, and the disclosure of service charges on these accounts by member banks.

Questions regarding this matter may be directed to our Regulations Division (Tel. No. 212-791-5914). Additional copies of the Board's letter will be furnished upon request.

ANTHONY M. SOLOMON,
President.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1983

As you know, questions have been raised recently concerning whether depository institutions are providing accurate and meaningful information to consumers in their advertisements for Money Market Deposit Accounts (MMDAs) and NOW accounts of $2,500 or more, which are not subject to interest rate ceilings. The principal areas of concern have been the payment of split interest rates on the accounts and the disclosure of service charges. The purpose of this letter is to advise you of the Board staff's view of how the advertising provisions of Regulation Q--Interest on Deposits (12 CFR Part 217) apply to certain aspects of advertisements for MMDAs and "Super NOW" accounts.

Many depository institutions have been offering such accounts with an interest rate structure whereby the account earns 5-1/4 percent on the first $2,500 in the account and some higher rate, say 10 percent, on the account balance in excess of $2,500. Section 217.6(d) of Regulation Q (12 CFR § 217.6(d)) specifically provides that "if an advertised rate is payable only on deposits that meet. . .amount requirements, such requirements shall be clearly and conspicuously stated." Consistent with this requirement, where a member bank advertises a split rate on an account, it cannot advertise the higher rate unless it (1) states clearly in close proximity to the rate that the rate applies only to balances above a stated amount, and (2) includes the lower rate that applies to the amount of the account below the cutoff rate in the advertisement in equal prominence with the higher rate. Many member banks are paying one interest rate on such accounts that meet the regulatory minimum denomination requirement of $2,500, or perhaps some higher minimum established by the bank. In these cases, such advertisements that include an interest rate need only state the minimum denomination that applies to the accounts. Regulation Q does not require that the rate that applies when the account falls below the minimum required balance be included in the advertisement. However, many institutions do include this information in their advertisements, and the Board's staff believes that this information is helpful to consumers and encourages member banks to continue to provide such information.

The second major area of concern is the imposition of service charges. Ordinary and recurring service charges on deposit accounts may substantially reduce the yield on such accounts. The staff regards any advertisement or other solicitation for an interest-bearing account that

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fails to disclose the existence of such charges as inaccurate, misleading, or misrepresentative of its deposit contracts in violation of section 217.6(g) of Regulation Q (12 CFR § 217.6(g)). Accordingly, if service charges or other similar fees are imposed on an interest-bearing account and an interest rate is advertised, the existence of such fees must be stated conspicuously in the advertisement. Where the only charges that will be imposed will be those made in connection with overdrafts, returned checks, or stop payments, the existence of such charges need not be disclosed in advertisements. In this regard, such charges are distinguishable from ordinary and recurring charges such as per check charges and monthly service charges, which are applied essentially uniformly and incurred regularly. Per check and monthly service charges also may substantially diminish a depositor's monthly return on the account.

The staff believes that not all details of service charges need be included in advertising. However, all information concerning service charges or other fees must be provided to a customer at the time a deposit account is opened. In this regard, the Board has issued an interpretation (12 CFR § 217.148) that provides that member banks must advise customers at the opening of an account "as to the method that will be used in computing and paying interest on the account, including any provision for nonpayment of interest. . ." Service charges are a pertinent element of this formula and must be fully disclosed.

We would appreciate it if you would send a copy of this letter to all member banks in your district.

Very truly yours,

William W. Wiles

William W. Wiles
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND
OFFICERS IN CHARGE OF BRANCHES