

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9661**
March 30, 1984]

IRA ADVERTISING

Policy Statement and Proposed Amendments to Regulation Q

*To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued a policy statement concerning advertisements for time deposits that pay more than one fixed rate over the term of the account.

At the same time, the Board published for public comment a proposal to amend its Regulation Q—Interest on Deposits — that would incorporate the substance of the policy statement into the regulation.

The policy statement provides that advertisements for time deposits that pay more than one fixed interest rate should set forth, in equal size type, each rate of interest to be paid together with the length of time each rate will be paid and the average effective annual yield for the entire term of the account. Further, advertisements for deposits to be used in connection with Individual Retirement Accounts (IRAs) should not refer to such accounts as being tax-free or tax-exempt.

The Board's action was taken in response to recent advertisements where an initial high rate of interest appears in large print while a lower rate to be paid for the predominant part of the term of the account appears in much smaller type. The Board expressed concern that such advertisements are potentially misleading and confusing to depositors. The Board anticipates that the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Comptroller of the Currency will issue similar policy statements in the near future.

The Board also requested comment on alternatives to the policy statement, and other advertising and disclosure issues that may warrant consideration under Regulation Q. The Board requested comment by May 22, 1984.

Enclosed — for depository institutions in this District — is a copy of the Board's policy statement and notice of proposed rulemaking; additional copies will be furnished upon request directed to our Circulars Division (Tel. No. 212-791-5216). Comments on the Board's proposals should be submitted by May 22, 1984, and may be sent to our Regulations Division.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

REGULATION Q

[12 C.F.R. Part 217]

INTEREST ON DEPOSITS

[Docket No. R-0513]

Advertising of Multiple Rate Accounts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy statement.

SUMMARY: The Board of Governors has issued a policy statement concerning potentially misleading advertising practices for time deposits used as investments for Individual Retirement Accounts. The Board believes that advertisements for time deposits that state in large type an initial rate that is effective for a period of a few months and then state in smaller type a lower rate that will be effective for the remaining term of the time deposit can be misleading to consumers. Such advertisements should state both rates in type of equal size in order not to be regarded as misleading, and include a conspicuous statement of the average effective annual yield. In addition, advertisements for deposits to be used in connection with Individual Retirement Accounts should not refer to contributions to such accounts as "tax-free" or "tax-exempt." This action was taken to assure that depository institutions provide meaningful and accurate information and to assist consumers to make comparisons of interest rates being offered on time deposits.

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EFFECTIVE DATE: March 22, 1984.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202-452-3625), or Paul S. Pilecki, Senior Counsel (202-452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Federal Reserve Board has issued the following policy statement concerning advertisements for time deposits that have split, fixed interest rates and for accounts to be used as investments for Individual Retirement Accounts.

ADVERTISING OF MULTIPLE RATE TIME DEPOSITS AND
INDIVIDUAL RETIREMENT ACCOUNTS

(a) The following advertising practice for deposits or accounts to be used as investments for Individual Retirement Accounts (IRAs) has come to the attention of the federal financial institution regulatory agencies with specific statutory authority to regulate advertising for deposits or other accounts. The advertisements display a rate of, perhaps, 15 percent in two to three inch type. In smaller, usually standard size, type, the advertisements state that the rate is paid only through a fixed date two or three months hence or for the first two or three months of the term of the account. For the remaining term of the account, which typically will be two to three years, the rate to be paid will be much lower, for example, 10.5 or 11 percent. In some cases, the maturity of the account is stated in bold type of a size similar to the higher interest rate.

(b) The Board believes that such advertisements are misleading and are in violation of section 217.6(g) of Regulation Q (12 CFR §§ 217.6(g)), which states that a member bank shall not make any advertisement related to interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts. In this regard, the display of a rate in substantially larger type than the rate that will apply for the predominant part of the term of the account is confusing to depositors and misrepresentative of the deposit contract. Moreover, such advertisements do not give meaningful information to consumers because the annual average effective yield over the life of the instrument will differ from the rates stated. (The staff of the Board has previously advised member banks that it regards any advertisement for a time deposit that states an annual rate of simple interest in excess of the average effective annual yield as inaccurate, misleading, and misrepresentative of their deposit contracts. ¶ 2-411.1 Federal Reserve Regulatory Service.)

(c)(1) Advertisements for time deposits where more than one rate is paid would not be regarded as misleading if each rate to be paid on the account is stated in the advertisement in type of equal size together with a conspicuous statement as to the length of time for which each rate is effective. This applies to accounts where a) it is known in advance what the rates to be paid throughout the life of the account will be and b) the initial rate to be paid is higher

than subsequent rates. In addition, such advertisements must include a conspicuous statement of the average effective annual yield for the deposit which assumes compounding of interest at least annually.

(2) For accounts subject to a variable interest rate that is determined by an index, the initial interest rate may be advertised; however, the advertisement must also include a conspicuous statement as to (i) the time period for which such rate applies, and (ii) the method by which the rates will be determined for future periods and the time period for which such rates will apply.

(3) For accounts that offer an initial fixed rate to be followed by a variable rate determined by an index during the remainder of the term of the account, the method of determining the variable rate shall be stated in type of the same size as the fixed rate. In addition, the time periods for which the initial fixed rate and subsequent rates apply must be conspicuously stated.

(d) It is also misleading and inaccurate for advertisements to refer to an IRA as a tax-free investment. Contributions to, and earnings on, IRAs are deferred from federal income taxes rather than exempt from taxes. Accordingly, such advertisements should not use the terms "tax-free" or "tax-exempt," or other similar language.

By order of the Board of Governors, March 22, 1984.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board