AT-10614

January 11, 1993

To All Depository Institutions in the Second Federal Reserve District, and Others Maintaining Sets of Board Regulations:

Enclosed is a copy of the newly printed Regulation DD pamphlet, "Truth in Savings," effective September 21, 1992, of the Board of Governors of the Federal Reserve System.

This pamphlet will replace the previous printing of this regulation from the *Federal Register* that was issued with our Circular No. 10578, dated October 1, 1992.

Circulars Division
FEDERAL RESERVE BANK OF NEW YORK

Board of Governors of the Federal Reserve System

Regulation DD
Truth in Savings

12 CFR 230; effective September 21, 1992

Any inquiry relating to this regulation should be addressed to the District in which the inquiry arises.

November 1992

Contents

TRUTH IN SAVINGS ACT

Regulation DD
Truth in Savings

12 CFR 230; effective September 21, 1992; compliance optional until March 21, 1993

SECTION 230.1—Authority, Purpose, Coverage, and Effect on State Laws

(a) *Authority.* This regulation, known as Regulation DD, is issued by the Board of Governors of the Federal Reserve System to implement the Truth in Savings Act of 1991 (the act), contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (12 USC 4301 et seq., Pub. L. 102-242, 105 Stat. 2236). Information-collection requirements contained in this regulation have been approved by the Office of Management and Budget under the provisions of 44 USC 3501 et seq. and have been assigned OMB No. 7100-0255.

(b) *Purpose.* The purpose of this regulation is to enable consumers to make informed decisions about accounts at depository institutions. The regulation requires depository institutions to provide disclosures so that consumers can make meaningful comparisons among depository institutions.

(c) *Coverage.* This regulation applies to depository institutions except for credit unions. In addition, the advertising rules in section 230.8 of this part apply to any person who advertises an account offered by a depository institution, including deposit brokers.

(d) *Effect on state laws.* State law requirements that are inconsistent with the requirements of the act and this regulation are preempted to the extent of the inconsistency. Additional information on inconsistent state laws and the procedures for requesting a preemption determination from the Board are set forth in appendix C of this part.

SECTION 230.2—Definitions

For purposes of this regulation, the following definitions apply:

(a) *Account* means a deposit account at a depository institution that is held by or offered to a consumer. It includes time, demand, savings, and negotiable order of withdrawal accounts. For purposes of the advertising requirements in section 230.8 of this part, the term also includes an account at a depository institution that is held by or on behalf of a deposit broker, if any interest in the account is held by or offered to a consumer. The term does not include an existing account held by an unincorporated nonbusiness association of natural persons prior to March 21, 1993, unless the association notifies the institution that it meets the definition of "consumer."

(b) *Advertisement* means a commercial message, appearing in any medium, that promotes directly or indirectly the availability of, or a deposit in, an account.

(c) *Annual percentage yield* means a percentage rate reflecting the total amount of interest paid on an account, based on the interest rate and the frequency of compounding for a 365-day period and calculated according to the rules in appendix A of this part.

(d) *Average-daily-balance method* means the application of a periodic rate to the average daily balance in the account for the period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.

(e) *Board* means the Board of Governors of the Federal Reserve System.

(f) *Bonus* means a premium, gift, award, or other consideration worth more than $10 (whether in the form of cash, credit, merchandise, or any equivalent) given or offered to a consumer during a year in exchange for opening, maintaining, renewing, or increasing an account balance. The term does not include interest, other consideration worth $10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.

(g) *Business day* means a calendar day other than a Saturday, a Sunday, or any of the legal public holidays specified in 5 USC 6103(a).

(h) *Consumer* means a natural person who holds an account primarily for personal, family, or household purposes, or to whom such an account is offered. The term also includes an unincorporated nonbusiness association of natural persons. The term does not include a natural person who holds an account for another in a professional capacity.

(i) *Daily-balance method* means the application of a daily periodic rate to the full amount of principal in the account each day.

(j) *Depository institution* and *institution* mean an institution defined in section 19(b)(1)(A)(i)–(vi) of the Federal Reserve Act (12 USC 461), except credit unions defined in section 19(b)(1)(A)(iv).

(k) *Deposit broker* means any person who is a deposit broker as defined in section 29(g) of the Federal Deposit Insurance Act (12 USC 1831f(g)).

(l) Fixed-rate account means an account for which the institution contracts to give at least 30 calendar days' advance written notice of decreases in the interest rate.

(m) *Grace period* means a period following the maturity of an automatically renewing time account during which the consumer may withdraw funds without being assessed a penalty.

(n) *Interest* means any payment to a consumer or to an account for the use of funds in an account, calculated by application of a periodic rate to the balance. The term does not include the payment of a bonus or other consideration worth $10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.

(o) *Interest rate* means the annual rate of interest paid on an account which does not reflect compounding. For the purposes of the account disclosures in section 230.4(b)(1)(i) of this part, the interest rate may, but need not, be referred to as the "annual percentage rate" in addition to being referred to as the "interest rate."

(p) *Passbook savings account* means a savings account in which the consumer retains a book or other document in which the institution records transactions on the account.

(q) *Periodic statement* means a statement setting forth information about an account (other than a time account or passbook savings account) that is provided to a consumer on a regular basis four or more times a year.

(r) *State* means a state, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

(s) *Stepped-rate account* means an account that has two or more interest rates that take effect in succeeding periods and are known when the account is opened.

(t) *Tiered-rate account* means an account that has two or more interest rates that are applicable to specified balance levels.

(u) *Time account* means an account with a maturity of at least seven days in which the consumer generally does not have a right to make withdrawals for six days after the account is opened, unless the deposit is subject to an early withdrawal penalty of at least seven days' interest on amount withdrawn.

(v) *Variable-rate account* means an account in which the interest rate may change after the account is opened, unless the institution contracts to give at least 30 calendar days' advance written notice of rate decreases.

SECTION 230.3—General Disclosure Requirements

(a) *Form.* Depository institutions shall make the disclosures required by sections 230.4 through 230.6 of this part, as applicable, clearly and conspicuously in writing and in a form the consumer may keep. Disclosures for each account offered by an institution may be presented separately or combined with disclosures for the institution's other accounts, as long as it is clear which disclosures are applicable to the consumer's account.

(b) *General.* The disclosures shall reflect the terms of the legal obligation of the account agreement between the consumer and the depository institution. Disclosures may be made in languages other than English, provided the disclosures are available in English upon request.

(c) *Relation to Regulation E.* Disclosures required by and provided in accordance with the Electronic Fund Transfer Act (15 USC 1601) and its implementing Regulation E (12 CFR 205) that are also required by this regulation may be substituted for the disclosures required by this regulation.

(d) *Multiple consumers.* If an account is held by more than one consumer, disclosures may be made to any one of the consumers.

(e) *Oral response to inquiries.* In an oral response to a consumer's inquiry about interest rates payable on its accounts, the depository institution shall state the annual percentage yield. The interest rate may be stated in addition to the annual percentage yield. No other rate may be stated.

(f) *Rounding and accuracy rules for rates and yields.*

(1) Rounding. The annual percentage yield, the annual percentage yield earned, and the interest rate shall be rounded to the nearest one-hundredth of one percentage point (.01%) and expressed to two decimal places. For account disclosures, the interest rate may be expressed to more than two decimal places.

(2) Accuracy. The annual percentage yield (and the annual percentage yield earned) will be considered accurate if not more that one-twentieth of one percentage point (.05%) above or below the annual percentage yield (and the annual percentage yield earned) determined in accordance with the rules in appendix A of this part.

SECTION 230.4—Account Disclosures

(a) *Delivery of account disclosures.*

(1) Account opening. A depository institution shall provide account disclosures to a consumer before an account is opened or a service is provided, whichever is earlier. An institution is deemed to have provided a service when a fee required to be disclosed is assessed. If the consumer is not present at the institution when the account is opened or the service is provided and has not already received the disclosures, the institution shall mail or deliver the disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier.

(2) Requests. (i) A depository shall provide account disclosures to a consumer upon request. If the consumer is not present at the institution when a request is made, the institution shall mail or deliver the disclosures within a reasonable time after it receives the request.

(ii) In providing disclosures upon request, the institution may—

(A) specify an interest rate and annual percentage yield that were offered within the most recent seven calendar days; state that the rate and yield are accurate as of an identified date; and provide a telephone number consumers may call to obtain current rate information.

(B) state the maturity of a time account as a term rather than a date.

(b) *Content of account disclosures.* Account disclosures shall include the following, as applicable:

(1) Rate information. (i) Annual percentage yield and interest rate. The "annual percentage yield" and the "interest rate," using those terms, and for fixed-rate accounts the period of time the interest rate will be in effect.

(ii) Variable rates. For variable-rate accounts:

(A) the fact that the interest rate and annual percentage yield may change;

(B) how the interest rate is determined;

(C) the frequency with which the interest rate may change; and

(D) any limitation on the amount the interest rate may change.

(2) Compounding and crediting. (i) Frequency. The frequency with which interest is compounded and credited.

(ii) Effect of closing an account. If consumers will forfeit interest if they close the account before accrued interest is credited, a statement that interest will not be paid in such cases.

(3) Balance information. (i) Minimum-balance requirements. Any minimum balance required to—

(A) open the account;

(B) avoid the imposition of a fee; or

(C) obtain the annual percentage yield disclosed.

Except for the balance to open the account, the disclosure shall state how the balance is determined for these purposes.

(ii) Balance-computation method. An explanation of the balance-computation method specified in section 230.7 of this part used to calculate interest on the account.

(iii) When interest begins to accrue. A statement of when interest begins to accrue on noncash deposits.

(4) Fees. The amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed.

(5) Transaction limitations. Any limitations on the number or dollar amount of withdrawals or deposits.

(6) Features of time accounts. For time accounts:

(i) Time requirements. The maturity date.

(ii) Early withdrawal penalties. A statement that a penalty will or may be imposed for early withdrawal, how it is calculated, and the conditions for its assessment.

(iii) Withdrawal of interest prior to maturity. If compounding occurs during the term and interest may be withdrawn prior to maturity, a statement that the annual percentage yield assumes interest remains on deposit until maturity and that a withdrawal will reduce earnings.

(iv) Renewal policies. A statement of whether or not the account will renew automatically at maturity. If it will, a statement of whether or not a grace period will be provided and, if so, the length of that period must be stated. If the account will not renew automatically, a statement of whether interest will be paid after maturity if the consumer does not renew the account must be stated.

(7) Bonuses. The amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus.

(c) *Notice to existing account holders.*

(1) Notice of availability of disclosures. Depository institutions shall provide a notice to consumers who receive periodic statements and who hold existing accounts of the type offered by the institution on March 21, 1993. The notice shall be included on or with the first periodic statement sent on or after March 21, 1993 (or on or with the first periodic statement for a statement cycle beginning on or after that date). The notice shall state that consumers may request account disclosures containing terms, fees, and rate information for their account. In responding to such a request, institutions shall provide disclosures in accordance with paragraph (a)(2) of this section.

(2) Alternative to notice. As an alternative to the notice described in paragraph (c)(1) of this section, institutions may provide account disclosures to consumers. The disclosures may be provided either with a periodic statement or separately, but must be sent no later than when the periodic statement described in paragraph (c)(1) is sent.

SECTION 230.5—Subsequent Disclosures

(a) *Change in terms.*

(1) Advance notice required. A depository institution shall give advance notice to affected consumers of any change in a term required to be disclosed under section 230.4(b) of this part if the change may reduce the annual percentage yield or adversely affect the consumer. The notice shall include the effective date of the change. The notice shall be mailed or delivered at least 30 calendar days before the effective date of the change.

(2) No notice required. No notice under this section is required for—

(i) Variable-rate changes. Changes in

the interest rate and corresponding changes in the annual percentage yield in variable-rate accounts.

(ii) Check-printing fees. Changes in fees assessed by third parties for check printing.

(iii) Short-term time accounts. Changes in any term for time accounts with maturities of one month or less.

(b) *Notice before maturity for time accounts longer than one month that renew automatically.* For time accounts with a maturity longer than one month that renew automatically at maturity, institutions shall provide the disclosures described below before maturity. The disclosures shall be mailed or delivered at least 30 calendar days before maturity of the existing account. Alternatively, the disclosures may be mailed or delivered at least 20 calendar days before the end of the grace period on the existing account, provided a grace period of at least five calendar days is allowed.

(1) Maturities of longer than one year. If the maturity is longer than one year, the institution shall provide account disclosures set forth in section 230.4(b) of this part for the new account, along with the date the existing account matures. If the interest rate and annual percentage yield that will be paid for the new account are unknown when disclosures are provided, the institution shall state that those rates have not yet been determined, the date when they will be determined, and a telephone number consumers may call to obtain the interest rate and the annual percentage yield that will be paid for the new account.

(2) Maturities of one year or less but longer than one month. If the maturity is one year or less but longer than one month, the institution shall either—

(i) provide disclosures as set forth in paragraph (b)(1) of this section; or

(ii) disclose to the consumer—

(A) the date the existing account matures and the new maturity date if the account is renewed;

(B) the interest rate and the annual percentage yield for the new account if they are known (or that those rates have not yet been determined, the date when they will be determined, and a telephone number the consumer may call to obtain the interest rate and the annual percentage yield that will be paid for the new account); and

(C) any difference in the terms of the new account as compared with the terms required to be disclosed under section 230.4(b) of this part for the existing account.

(c) *Notice for time accounts one month or less that renew automatically.* For time accounts with a maturity one month or less that renew automatically at maturity, institutions shall disclose any difference in the terms of the new account as compared with the terms required to be disclosed under section 230.4(b) of this part for the existing account, other than a change in the interest rate and corresponding change in the annual percentage yield. The notice shall be mailed or delivered within a reasonable time after the renewal.

(d) *Notice before maturity for time accounts longer than one year that do not renew automatically.* For time accounts with a maturity longer than one year that do not renew automatically at maturity, institutions shall disclose to consumers the maturity date and whether interest will be paid after maturity. The disclosures shall be mailed or delivered at least 10 calendar days before maturity of the existing account.

SECTION 230.6—Periodic-Statement Disclosures

(a) *General rule.* If a depository institution mails or delivers a periodic statement, the statement shall include the following disclosures:

(1) Annual percentage yield earned. The "annual percentage yield earned" during the statement period, using that term, calculated according to the rules in appendix A of this part.

(2) Amount of interest. The dollar amount of interest earned during the statement period.

(3) Fees imposed. Fees required to be disclosed under section 230.4(b)(4) of this part that were debited to the account dur-

ing the statement period. The fees shall be itemized by type and dollar amounts.

(4) Length of period. The total number of days in the statement period, or the beginning and ending dates of the period.

(b) *Special rule for average-daily-balance method.* In making the disclosures described in paragraph (a) of this section, institutions that use the average-daily-balance method and that calculate interest for a period other than the statement period shall calculate and disclose the annual percentage yield earned and amount of interest earned based on that period rather than the statement period. The information in paragraph (a)(4) of this section shall be stated for that period as well as for the statement period.

SECTION 230.7—Payment of Interest

(a) *Permissible methods.*

(1) Balance on which interest is calculated. Institutions shall calculate interest on the full amount of principal in an account for each day by use of either the daily-balance method or the average-daily-balance method.[1]

(2) Determination of minimum balance to earn interest. An institution shall use the same method to determine any minimum balance to earn interest as it uses to determine the balance on which interest is calculated. An institution may use an additional method that is unequivocally beneficial to the consumer.

(b) *Compounding and crediting policies.* This section does not require institutions to compound or credit interest at any particular frequency.

(c) *Date interest begins to accrue.* Interest shall begin to accrue not later than the business day specified for interest-bearing accounts in section 606 of the Expedited Funds Availability Act (12 USC 4005 et seq.) and implementing Regulation CC (12 CFR 229). Interest shall accrue until the day funds are withdrawn.

[1] Institutions shall calculate interest by use of a daily rate of at least $1/365$ of the interest rate. In a leap year a daily rate of $1/366$ of the interest rate may be used.

SECTION 230.8—Advertising

(a) *Misleading or inaccurate advertisements.* An advertisement shall not be misleading or inaccurate and shall not misrepresent a depository institution's deposit contract. An advertisement shall not refer to or describe an account as "free" or "no cost" (or contain a similar term) if any maintenance or activity fee may be imposed on the account. The word "profit" shall not be used in referring to interest paid on an account.

(b) *Permissible rates.* If an advertisement states a rate of return, it shall state the rate as an "annual percentage yield" using that term. (The abbreviation "APY" may be used provided the term "annual percentage yield" is stated at least once in the advertisement.) The advertisement shall not state any other rate, except that the "interest rate," using that term, may be stated in conjunction with, but not more conspicuously than, the annual percentage yield to which it relates.

(c) *When additional disclosures are required.* Except as provided in paragraph (e) of this section, if the annual percentage yield is stated in an advertisement, the advertisement shall state the following information, to the extent applicable, clearly and conspicuously:

(1) Variable rates. For variable-rate accounts, a statement that the rate may change after the account is opened.

(2) Time annual percentage yield is offered. The period of time the annual percentage yield will be offered, or a statement that the annual percentage yield is accurate as of a specified date.

(3) Minimum balance. The minimum balance required to obtain the advertised annual percentage yield. For tiered-rate accounts, the minimum balance required for each tier shall be stated in close proximity and with equal prominence to the applicable annual percentage yield.

(4) Minimum opening deposit. The minimum deposit required to open the account, if it is greater than the minimum balance necessary to obtain the advertised annual percentage yield.

(5) Effect of fees. A statement that fees

could reduce the earnings on the account.

(6) Features of time accounts. For time accounts:

(i) Time requirements. The term of the account.

(ii) Early withdrawal penalties. A statement that a penalty will or may be imposed for early withdrawal.

(d) *Bonuses.* Except as provided in paragraph (e) of this section, if a bonus is stated in an advertisement, the advertisement shall state the following information, to the extent applicable, clearly and conspicuously:

(1) the "annual percentage yield," using that term;

(2) the time requirement to obtain the bonus;

(3) the minimum balance required to obtain the bonus;

(4) the minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus; and

(5) when the bonus will be provided.

(e) *Exemption for certain advertisements.* If an advertisement is made through one of the following media, it need not contain the information in paragraphs (c)(1), (c)(2), (c)(4), (c)(5), (c)(6)(ii), (d)(4), and (d)(5) of this section:

(1) broadcast or electronic media, such as television or radio;

(2) outdoor media, such as billboards;

(3) telephone response machines; or

(4) lobby boards inside a depository institution or deposit broker (provided they contain a notice advising consumers to contact an employee for further information).

SECTION 230.9—Enforcement and Record Retention

(a) *Administrative enforcement.* Section 270 of the act contains the provisions relating to administrative sanctions for failure to comply with the requirements of the act and this regulation. Compliance is enforced by the agencies listed in that section.

(b) *Civil liability.* Section 271 of the act contains the provisions relating to civil liability for failure to comply with the requirements of the act and this regulation.

(c) *Record retention.* A depository institution shall retain evidence of compliance with this regulation for a minimum of two years after the date disclosures are required to be made or action is required to be taken. The administrative agencies responsible for enforcing the regulation may require depository institutions under their jurisdiction to retain records for a longer period if necessary to carry out their enforcement responsibilities under section 270 of the act.

APPENDIX A—Annual-Percentage-Yield Calculation

The annual percentage yield measures the total amount of interest paid on an account based on the interest rate and the frequency of compounding.[1] The annual percentage yield is expressed as an annualized rate, based on a 365-day year.[2] Part I of this appendix discusses the annual percentage yield calculations for account disclosures and advertisements, while part II discusses annual-percentage-yield-earned calculations for periodic statements.

Part I. Annual Percentage Yield for Account Disclosures and Advertising Purposes.

In general, the annual percentage yield for account disclosures under sections 230.4 and 230.5 and for advertising under section 230.8 is an annualized rate that reflects the relationship between the amount of interest that would be earned by the consumer for the term of the account and the amount of principal used to calculate that interest. Special rules apply to accounts with tiered and stepped interest rates.

[1] The annual percentage yield reflects only interest and does not include the value of any bonus (or other consideration worth $10 or less) that may be provided to the consumer to open, maintain, increase, or renew an account. Interest or other earnings are not to be included in the annual percentage yield if such amounts are determined by circumstances that may or may not occur in the future.

[2] Institutions may calculate the annual percentage yield based on a 365-day or a 366-day year in a leap year.

A. General Rules

The annual percentage yield shall be calculated by the formula shown below. Institutions shall calculate the annual percentage yield based on the actual number of days in the term of the account. For accounts without a stated maturity date (such as a typical savings or transaction account), the calculation shall be based on an assumed term of 365 days. In determining the total interest figure to be used in the formula, institutions shall assume that all principal and interest remain on deposit for the entire term and that no other transactions (deposits *or* withdrawals) occur during the term.[3] For time accounts that are offered in multiples of months, institutions may base the number of days on either the actual number of days during the applicable period, or the number of days that would occur for any actual sequence of that many calendar months. If institutions choose to use the latter rule, they must use the same number of days to calculate the dollar amount of interest earned on the account that is used in the annual percentage yield formula (where "Interest" is divided by "Principal").

The annual percentage yield is calculated by use of the following general formula ("APY" is used for convenience in the formulas):

$$\text{APY} = 100\ [(1 + \text{Interest/Principal})^{(365/\text{Days in term})} - 1]$$

"Principal" is the amount of funds assumed to have been deposited at the beginning of the account.

"Interest" is the total dollar amount of interest earned on the principal for the term of the account.

"Days in term" is the actual number of days in the term of the account. When the "days in term" is 365 (that is, where the stated maturity is 365 days or where the account does not have a stated maturity), the annual percentage yield can be calculated by use of the following simple formula:

$$\text{APY} = 100\ (\text{Interest/Principal})$$

Examples:

(1) If an institution pays $61.68 in interest for a 365-day year on $1,000 deposited into a NOW account, using the general formula above, the annual percentage yield is 6.17 percent:

$$\text{APY} = 100\ [(1 + 61.68/1{,}000)^{(365/365)} - 1]$$
$$\text{APY} = 6.17\%.$$

Or, using the simple formula above (since, as an account without a stated term, the term is deemed to be 365 days):

$$\text{APY} = 100\ (61.68/1{,}000)$$
$$\text{APY} = 6.17\%$$

(2) If an institution pays $30.37 in interest on a $1,000 six-month certificate of deposit (where the six-month period used by the institution contains 182 days), using the general formula above, the annual percentage yield is 6.18 percent:

$$\text{APY} = 100\ [(1 + 30.37/1{,}000)^{(365/182)} - 1]$$
$$\text{APY} = 6.18\%$$

B. Stepped-Rate Accounts (Different rates apply in succeeding periods.)

For accounts with two or more interest rates applied in succeeding periods (where the rates are known at the time the account is opened), an institution shall assume each interest rate is in effect for the length of time provided for in the deposit contract.

Examples:

(1) If an institution offers a $1,000 six-month certificate of deposit on which it pays a 5 percent interest rate, compounded daily, for the first three months (which contain 91 days), and a 5.5 percent interest rate, compounded daily, for the next three months (which contain 92 days), the total interest for six months is $26.68 and, using the general formula above, the annual percentage yield is 5.39 percent:

$$\text{APY} = 100\ [(1 + 26.68/1{,}000)^{(365/183)} - 1]$$
$$\text{APY} = 5.39\%$$

[3] This assumption shall not be used if an institution *requires,* as a condition of the account, that consumers withdraw interest during the term. In such a case, the interest (and annual percentage yield calculation) shall reflect that requirement.

(2) If an institution offers a $1,000 two-year certificate of deposit on which it pays a 6 percent interest rate, compounded daily, for the first year, and a 6.5 percent interest rate, compounded daily, for the next year, the total interest for two years is $133.13, and, using the general formula above, the annual percentage yield is 6.45 percent:

$$APY = 100 \left[(1 + 133.13/1{,}000)^{(365/730)} - 1 \right]$$

$$APY = 6.45\%$$

C. Variable-Rate Accounts

For variable-rate accounts without an introductory premium or discounted rate, an institution must base the calculation only on the initial interest rate in effect when the account is opened (or advertised), and assume that this rate will not change during the year.

Variable-rate accounts with an introductory premium (or discount) rate must be calculated like a stepped-rate account. Thus, an institution shall assume that (1) the introductory interest rate is in effect for the length of time provided for in the deposit contract; and (2) the variable interest rate that would have been in effect when the account is opened or advertised (but for the introductory rate) is in effect for the remainder of the year. If the variable rate is tied to an index, the index-based rate in effect at the time of disclosure must be used for the remainder of the year. If the rate is not tied to an index, the rate in effect for existing consumers holding the same account (who are not receiving the introductory interest rate) must be used for the remainder of the year.

For example, if an institution offers an account on which it pays a 7 percent interest rate, compounded daily, for the first three months (which, for example, contain 91 days), while the variable interest rate that would have been in effect when the account was opened was 5 percent, the total interest for a 365-day year for a $1,000 deposit is $56.52 (based on 91 days at 7 percent followed by 274 days at 5 percent). Using the simple formula, the annual percentage yield is 5.65 percent:

$$APY = 100\ (56.52/1{,}000)$$

$$APY = 5.65\%$$

D. Tiered-Rate Accounts (Different rates apply to specified balance levels.)

For accounts in which two or more interest rates paid on the account are applicable to specified balance levels, the institution must calculate the annual percentage yield in accordance with the method described below that it uses to calculate interest. In all cases, an annual percentage yield (or a range of annual percentage yields, if appropriate) must be disclosed for each balance tier.

For purposes of the examples discussed below, assume the following:

Interest rate	*Deposit balance required to earn rate*
5.25%	up to but not exceeding $2,500
5.50%	above $2,500 but not exceeding $15,000
5.75%	above $15,000

Tiering Method A

Under this method, an institution pays on the full balance in the account the stated interest rate that corresponds to the applicable deposit tier. For example, if a consumer deposits $8,000, the institution pays the 5.50 percent interest rate on the entire $8,000.

When this method is used to determine interest, only one annual percentage yield will apply to each tier. Within each tier, the annual percentage yield will not vary with the amount of principal assumed to have been deposited.

For the interest rates and deposit balances assumed above, the institution will state three annual percentage yields—one corresponding to each balance tier. Calculation of each annual percentage yield is similar for this type of account as for accounts with a single interest rate. Thus, the calculation is based on the total amount of interest that would be received by the consumer for each tier of the account for a year and the principal assumed to have been deposited to earn that amount of interest.

First tier. Assuming daily compounding, the institution will pay $53.90 in interest on a $1,000 deposit. Using the general formula, for the first tier, the annual percentage yield is 5.39 percent:

$$APY = 100[(1+53.90/1{,}000)^{(365/365)} - 1]$$
$$APY = 5.39\%$$

Using the simple formula:

$$APY = 100(53.90/1{,}000)$$
$$APY = 5.39\%$$

Second tier. The institution will pay $452.29 in interest on a $8,000 deposit. Thus, using the simple formula, the annual percentage yield for the second tier is 5.65 percent:

$$APY = 100(452.29/8{,}000)$$
$$APY = 5.65\%$$

Third tier. The institution will pay $1,183.61 in interest on a $20,000 deposit. Thus, using the simple formula, the annual percentage yield for the third tier is 5.92 percent:

$$APY = 100(1{,}183.61/20{,}000)$$
$$APY = 5.92\%$$

Tiering Method B

Under this method, an institution pays the stated interest rate only on that portion of the balance within the specified tier. For example, if a consumer deposits $8,000, the institution pays 5.25 percent on $2,500 and 5.50 percent on $5,500 (the difference between $8,000 and the first tier cut-off of $2,500).

The institution that computes interest in this manner must provide a range that shows the lowest and the highest annual percentage yields for each tier (other than for the first tier, which, like the tiers in method A, has the same annual percentage yield throughout). The low figure for an annual percentage yield range is calculated based on the total amount of interest earned for a year assuming the *minimum* principal required to earn the interest rate for that tier. The high figure for an annual percentage yield range is based on the amount of interest the institution would pay on the *highest* principal that could be deposited to earn that same interest rate. If the account does not have a limit on the maximum amount that can be deposited, the institution may assume any amount.

For the tiering structure assumed above, the institution would state a total of five annual percentage yields—one figure for the first tier and two figures stated as a range for the other two tiers.

First tier. Assuming daily compounding, the institution would pay $53.90 in interest on a $1,000 deposit. For this first tier, using the simple formula, the annual percentage yield is 5.39 percent:

$$APY = 100(53.90/1{,}000)$$
$$APY = 5.39\%$$

Second tier. For the second tier, the institution would pay between $134.75 and $841.45 in interest, based on assumed balances of $2,500.01 and $15,000, respectively. For $2,500.01, interest would be figured on $2,500 at 5.25 percent interest rate plus interest on $.01 at 5.50 percent. For the low end of the second tier, therefore, the annual percentage yield is 5.39 percent, using the simple formula:

$$APY = 100(134.75/2{,}500)$$
$$APY = 5.39\%$$

For $15,000, interest is figured on $2,500 at 5.25 percent interest rate plus interest on $12,500 at 5.50 percent interest rate. For the high end of the second tier, the annual percentage yield, using the simple formula, is 5.61 percent:

$$APY = 100(841.45/15{,}000)$$
$$APY = 5.61\%$$

Thus, the annual percentage yield range for the second tier is 5.39 percent to 5.61 percent.

Third tier. For the third tier, the institution would pay $841.45 in interest on the low end of the third tier (a balance of $15,000.01). For $15,000.01, interest would be figured on $2,500 at 5.25 percent interest rate, plus interest on $12,500 at 5.50 percent interest rate, plus interest on $.01 at 5.75 percent interest rate. For the low end of the third tier, therefore, the annual percentage yield (using the simple formula) is 5.61 percent:

$$APY = 100(841.45/15{,}000)$$
$$APY = 5.61\%$$

Since the institution does not limit the account balance, it may assume any maximum amount for the purposes of computing the annual percentage yield for the high end of the third tier. For an assumed maximum balance amount of $100,000, interest would be figured on $2,500 at 5.25 percent interest rate, plus interest on $12,500 at 5.50 percent interest rate, plus interest on $85,000 at 5.75 percent interest rate. For the high end of the third tier, therefore, the annual percentage yield, using the simple formula, is 5.87 percent:

$$\text{APY} = 100(5{,}871.79/100{,}000)$$
$$\text{APY} = 5.87\%$$

Thus, the annual percentage yield range that would be stated for the third tier is 5.61 percent to 5.87 percent.

If the assumed maximum balance amount is $1,000,000 instead of $100,000, the institution would use $985,000 rather than $85,000 in the last calculation. In that case, for the high end of the third tier the annual percentage yield, using the simple formula, is 5.91 percent:

$$\text{APY} = 100(59134.22/1{,}000{,}000)$$
$$\text{APY} = 5.91\%$$

Thus, the annual percentage yield range that would be stated for the third tier is 5.61 percent to 5.91 percent.

Part II. Annual Percentage Yield Earned for Periodic Statements

The annual percentage yield earned for periodic statements under section 230.6(a) is an annualized rate that reflects the relationship between the amount of interest actually earned on the consumer's account during the statement period and the average daily balance in the account for the statement period. Pursuant to section 230.6(b), however, if an institution uses the average-daily-balance method and calculates interest for a period other than the statement period, the annual percentage yield earned shall reflect the relationship between the amount of interest earned and the average daily balance in the account for that other period.

The annual percentage yield earned shall be calculated by using the following formula ("APY earned" is used for convenience in the formulas):

$$\text{APY earned} = 100\,[1 + \text{Interest earned}/\text{Balance})^{(365/\text{Days in period})} - 1]$$

"Balance" is the average daily balance in the account for the period.

"Interest earned" is the actual amount of interest earned on the account for the period.

"Days in period" is the actual number of days for the period.

Examples:

(1) Assume an institution calculates interest for the statement period (and uses either the daily-balance or the average-daily-balance method), and the account has a balance of $1,500 for 15 days and a balance of $500 for the remaining 15 days or a 30-day statement period. The average daily balance for the period is $1,000. The interest earned (under either balance-computation method) is $5.25 during the period. The annual percentage yield earned (using the formula above) is 6.58 percent:

$$\text{APY earned} = 100\,[1 + 5.25/1{,}000)^{(365/30)} - 1]$$

$$\text{APY earned} = 6.58\%$$

(2) Assume an institution calculates interest on the average daily balance for the calendar month and provides periodic statements that cover the period from the 16th of one month to the 15th of the next month. The account has a balance of $2,000 September 1 through September 15 and a balance of $1,000 for the remaining 15 days of September. The average daily balance for the month of September is $1,500, which results in $6.50 in interest earned for the month. The annual percentage yield earned for the month of September would be shown on the periodic statement covering September 16 through October 15. The annual percentage yield earned (using the formula above) is 5.40 percent:

$$\text{APY earned} = 100\,[1 + 6.50/1{,}500)^{(365/30)} - 1]$$

$$\text{APY earned} = 5.40\%$$

(3) Assume an institution calculates interest on the average daily balance for a quarter (for example, the calendar months of September through November), and provides monthly periodic statements covering calendar months. The account has a balance of $1,000 throughout the 30 days of September, a balance of $2,000 throughout the 31 days of October, and a balance of $3,000 throughout the 30 days of November. The average daily balance for the quarter is $2,000, which results in $21 in interest earned for the quarter. The annual percentage yield earned would be shown on the periodic statement for November. The annual percentage yield earned (using the formula above) is 4.28 percent:

$$\text{APY earned} = 100\,[1 + 21/2{,}000)^{(365/91)} - 1]$$

$$\text{APY earned} = 4.28\%$$

APPENDIX B—Model Clauses and Sample Forms

B-1—Model Clauses for Account Disclosures (§ 230.4(b))
B-2—Model Clauses for Change in Terms (§ 230.5(a))
B-3—Model Clauses for Pre-Maturity Notices for Time Accounts (§ 230.5(b)(2) and 230.5(d))
B-4—Sample Form (Multiple Accounts)
B-5—Sample Form (NOW Account)
B-6—Sample Form (Tiered-Rate Money Market Account)
B-7—Sample Form (Certificate of Deposit)
B-8—Sample Form (Certificate of Deposit Advertisement)
B-9—Sample Form (Money Market Account Advertisement)

B-1—Model Clauses for Account Disclosures

(a) *Rate information*

(i) Fixed-rate accounts

The interest rate on your account is ____% with an annual percentage yield of ____%. You will be paid this rate [for *(time period)* /until *(date)*/for at least 30 calendar days].

(ii) Variable-rate accounts

The interest rate on your account is ____% with an annual percentage yield of ____%.

Your interest rate and annual percentage yield may change.

Determination of rate

The interest rate on your account is based on *(name of index)* [plus/minus a margin of ______].

or

At our discretion, we may change the interest rate on your account.

Frequency of rate changes

We may change the interest rate on your account [every *(time period)* /at any time].

Limitations on rate changes

The interest rate for your account will never change by more than ____% each *(time period)*.

The interest rate will never be [less/more] than ____%.

or

The interest rate will never [exceed ____% above/drop more than ____% below] the interest rate initially disclosed to you.

(iii) Stepped-rate accounts

The initial interest rate for your account is ____%. You will be paid this rate [for *(time period)* /until *(date)*]. After that time, the interest rate for your account will be ____%, and you will be paid this rate [for *(time period)* /until *(date)*]. The annual percentage yield for your account is ____%.

(iv) Tiered-rate accounts

Tiering Method A

- If your [daily balance/average daily balance] is $____ or more, the interest rate paid on the entire balance in your account will be ____% with an annual percentage yield of ____%.

- If your [daily balance/average daily balance] is more than $____, but less than $____, the interest rate paid on the entire balance in your account will be ____% with an annual percentage yield of ____%.
- If your [daily balance/average daily balance] is $____ or less, the interest rate paid on the entire balance will be ____% with an annual percentage yield of ____%.

Tiering Method B

- An interest rate of ____% will be paid only for that portion of your [daily balance/average daily balance] that is greater than $____. The annual percentage yield for this tier will range from ____% to ____%, depending on the balance in the account.
- An interest rate of ____% will be paid only for that portion of your [daily balance/average daily balance] that is greater than $____, but less than $____. The annual percentage yield for this tier will range from ____% to ____%, depending on the balance in the account.
- If your [daily balance/average daily balance] is $____ or less, the interest rate paid on the entire balance will be ____% with an annual percentage yield of ____%.

(b) *Compounding and crediting*

(i) Frequency

Interest will be compounded [on a ____ basis/every *(time period)*].

Interest will be credited to your account [on a ____ basis/every *(time period)*).

(ii) Effect of closing an account

If you close your account before interest is credited, you will not receive the accrued interest.

(c) *Minimum-balance requirements*

(i) To open the account

You must deposit $____ to open this account.

(ii) To avoid imposition of fees

A minimum balance fee of $____ will be imposed every *(time period)* if the balance in the account falls below $______ any day of the *(time period)* .

A minimum balance fee of $____ will be imposed every *(time period)* if the average daily balance for the *(time period)* falls below $____. The average daily balance is calculated by adding the principal in the account for each day of the period and dividing that figure by the number of days in the period.

(iii) To obtain the annual percentage yield disclosed

You must maintain a minimum balance of $____ in the account each day to obtain the disclosed annual percentage yield.

You must maintain a minimum average daily balance of $____ to obtain the disclosed annual percentage yield. The average daily balance is calculated by adding the principal in the account for each day of the period and dividing that figure by the number of days in the period.

(d) *Balance-computation method*

(i) Daily-balance method

We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

(ii) Average-daily-balance method

We use the average-daily-balance method to calculate interest on your account. This method applies a periodic rate to the average daily balance in the account for the period. The average daily balance is calculated by adding the principal in the account for each day of the period and dividing that figure by the number of days in the period.

(e) *Accrual of interest on noncash deposits*

Interest begins to accrue no later than the business day we receive credit for the deposit of noncash items (for example, checks).

or

Interest begins to accrue on the business day you deposit noncash items (for example, checks)

(f) *Fees*

The following fees may be assessed against your account:

____________________ $ ______

____________________ $ ______

____________________ $ ______

____ *(conditions for imposing fee)* $ ______

__________________ ____% of ______

(g) *Transaction limitations*

The minimum amount you may [withdraw/ write a check for] is $____.

You may make ____ [deposits into/withdrawals from] your account each *(time period)*.

You may not make [deposits into/withdrawals from] your account until the maturity date.

(h) *Disclosures relating to time accounts*

(1) Time requirements

Your account will mature on *(date)*.

Your account will mature in *(time period)*.

(ii) Early withdrawal penalties

We [will/may] impose a penalty if you withdraw [any/all] of the [deposited funds/principal] before the maturity date. The fee imposed will equal ____ days/ weeks[s]/months[s] of interest.

or

We [will/may] impose a penalty of $____ if you withdraw [any/all] of the [deposited funds/principal] before the maturity date.

If you withdraw some of your funds before maturity, the interest rate for the remaining funds in your account will be ____% with an annual percentage yield of ____%.

(iii) Withdrawal of interest prior to maturity

The annual percentage yield assumes interest will remain on deposit until maturity. A withdrawal will reduce earnings.

(iv) Renewal policies

(1) Automatically renewable time accounts

This account will automatically renew at maturity.
You will have [____ calendar/business] days after the maturity date to withdraw funds without penalty.

or

There is no grace period following the maturity of this account to withdraw funds without penalty.

(2) Non–automatically renewable time accounts

This account will not renew automatically at maturity. If you do not renew the account, your deposit will be placed in [an interest-bearing/a non-interest-bearing] account.

(i) *Bonuses*

You will [be paid/receive] [$____/ *(description of item)*] as a bonus [when you open the account/on *(date)*].

You must maintain a minimum [daily balance/average daily balance] of $____ to obtain the bonus.

To earn the bonus, [$____/your entire principal] must remain on deposit [for *(time period)* /until *(date)*].

B-2—Model Clauses for Change in Terms

On *(date)*, the cost of *(type of fee)* will increase to $____.

On *(date)*, the interst rate on your account will decrease to ____% with an annual percentage yield of ____%.

On *(date)*, the minimum [daily balance/average daily balance] required to avoid imposition of a fee will increase to $____.

B-3—Model Clauses for Pre-Maturity Notices for Time Accounts

(a) *Automatically renewable time accounts with maturities of one year or less but longer than one month*

Your account will mature on *(date)*.

If the account renews, the new maturity date will be *(date)*.

The interest rate for the renewed account will be ____% with an annual percentage yield of ____%.

or

The interest rate and annual percentage yield have not yet been determined. They will be available on ___*(date)*___. Please call ___*(phone number)*___ to learn the interest rate and annual percentage yield for your new account.

(b) *Non–automatically renewable time accounts with maturities longer than one year*

Your account will mature on ___*(date)*___.

If you do not renew the account, interest [will/will not] be paid after maturity.

B-4—Sample Form (Multiple Accounts)

BANK ABC
DISCLOSURE OF ACCOUNT TERMS

This disclosure contains information about your:

X NOW Account

- Your interest rate and annual percentage yield may change. At our discretion, we may change the interest rate on your account daily. The interest rate for your account will never be less than 2.00%.
- Interest begins to accrue on the business day you deposit noncash items (for example, checks).
- Interest is compounded daily and credited on the last day of each month. If you close your account before interest is credited, you will not receive the accrued interest.
- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

__ Passbook Savings Account

- The interest rate on your account will be paid for at least 30 days.
- Interest begins to accrue on the business day you deposit noncash items (for example, checks).
- Interest is compounded daily and credited on the last day of each month. If you close your account before interest is credited, you will not receive the accrued interests.
- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

Additional disclosures for your account are included on the attached sheets.

__ Money Market Account

- Your interest rate and annual percentage yield may change. At our discretion, we may change the interest rate on your account daily. The interest rate on your account will never be less than 3.00%
- You may make six (6) transfers from your account, but only three (3) may be payments by check to third parties.
- Interest begins to accrue on the business day you deposit noncash items (for example, checks).
- Interest is compounded daily and credited on the last day of each month. If you close your account before interest is credited, you will not receive the accrued interest.
- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

__ Certificates of Deposit

- The interest rate for your account will be paid until the maturity date of your certificate (__________).
- Interest is compounded daily and will be credited to your account monthly.
- Interest begins to accrue on the business day you deposit noncash items (for example, checks).
- This account will automatically renew at maturity. You will have ten (10) calendar days from the maturity date to withdraw your funds without beng charged a penalty.
- After the account is opened, you may not make deposits into or withdrawals from this account until the maturity date.
- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.
- If any of the deposit is withdrawn before the maturity date, a penalty as shown below will be imposed:

Term	*Early Withdrawal Penalty*
3-month CD	30 days interest
6-month CD	90 days interest
1-year CD	120 days interest
2-year CD	180 days interest

Additional disclosures for your account are included on the attached sheets.

[*Fee Schedule Insert*]

BANK ABC
FEE SCHEDULE

NOW Account

- Monthly minimum-balance fee if the daily balance drops below $500 any day of the month .... $ 7.50

Passbook Savings Account

- Monthly minimum-balance fee if the daily balance drops below $100 any day of the month .... $ 6.00
- You may make three (3) withdrawals per quarter.
  Each subsequent withdrawal .... $ 2.00

Money Market Account

- Monthly minimum-balance fee if the daily balance drops below $1,000 any day of month .... $ 5.00

Other Account Fees

- Deposited checks returned......... $ 5.00
- Balance inquiries (at a branch or at an ATM) .... $ 1.00
- Check printing* .... (Fee depends on style of check ordered)
- Your check returned for insufficient funds (per check)* $16.00
- Stop-payment request (per request)* $12.50
- Certified check (per check)* $10.00

* Fee does not apply to passbook savings accounts or certificates of deposit.

Additional disclosures for your account are included on the attached sheet.

(Rate Sheet Insert)

BANK ABC RATE SHEET

Account Type	*Minimum Deposit to Open Account*	*Minimum Balance* to Obtain Annual Percentage Yield*	*Interest Rate*	*Annual Percentage Yield*
NOW	$ 500	$2,500	4.00%	4.08%
Passbook Savings	$ 100	$ 500	3.50%	3.56%
Money Market.................	$1,000	$1,000	4.15%	4.24%
3-Month CD	$1,000	$1,000	4.20%	4.29%
6-Month CD	$1,000	$1,000	4.25%	4.34%
1-Year CD	$1,000	$1,000	5.20%	5.34%
2-Year CD	$1,000	$1,000	5.80%	5.97%

*Daily balance (the amount of principal in the account each day)

B-5—Sample Form (NOW Account)

BANK XYZ
DISCLOSURE OF INTEREST, FEES,
AND ACCOUNT TERMS
NOW ACCOUNT

Fee schedule

- Monthly minimum-balance fee if the daily balance drops below $1,000 any day of the month .... $ 7.00
- Fee to stop payment of a check $12.50
- Fee for check returns (insufficient funds—per check) $16.00
- Certified check (per check) $10.00
- Fee for initial check printing (per 200) .... $12.00 (Cost for check printing varies depending on the style of checks ordered.)

Rate information

- The interest rate for your account is 4.00 % with an annual percentage yield of 4.08 %. Your interest rate and annual percentage yield may change. At our discretion, we may change the interest rate for your account at any time. The interest rate for your account will never be less than 2% each year.

Minimum-balance requirements

- You must deposit $500 to open this account.
- You must maintain a minimum balance of $2,500 in the account each day to obtain the annual percentage yield listed above.

Balance-computation method

- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

Compounding and crediting

- Interest for your account will be compounded daily and credited to your account on the last day of each month.

Accrual of interest on deposits other than cash

- Interest begins to accrue on the business day you deposit noncash items (for example, checks).

B-6—Sample Form (Tiered-Rate Money Market Account)

BANK ABC
DISCLOSURE OF INTEREST, FEES,
AND ACCOUNT TERMS
MONEY MARKET ACCOUNT

Fee schedule

- Check returned for insufficient funds (per check) $16.00
- Stop-payment request (per request) . $12.50
- Certified check (per check) $10.00
- Check printing ... (Fee depends on style of checks ordered)

Rate information

- If your daily balance is $15,000 or more, the interest rate paid on the entire balance in your account will be 5.75% with an annual percentage yield of 5.92%.
- If your daily balance is more than $2,500, but less than $15,000, the interest rate paid on the entire balance in your account will be 5.50% with an annual percentage yield of 5.65%.
- If your daily balance is $2,500 or less, the interest rate paid on the entire balance will be 5.25% with an annual percentage yield of 5.39%.
- Your interest rate and annual percentage yield may change. At our discretion, we may change the interest rate for your account at any time. The interest rate for your account will never be less than 2.00%.
- Interest begins to accrue on the business day you deposit noncash items (for example, checks).
- Interest is compounded daily and credited on the last day of each month.

Minimum-balance requirements

- You must deposit $1,000 to open this account.
- A minimum balance fee of $5.00 will be imposed every month if the balance in your account falls below $1,000 any day of the month.

Balance-computation method

- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

Transaction limitations

- You may make six (6) transfers from your account, but only three (3) may be payments by check to third parties.

Early withdrawal penalty

- If you withdraw any principal before the maturity date, a penalty equal to three months' interest will be charged to your account.

Renewal policy

- This account will be automatically renewed at maturity. You have a grace period of ten (10) calendar days after the maturity date to withdraw the funds without being charged a penalty.

B-7—Sample Form (Certificate of Deposit)

XYZ SAVINGS BANK
1-YEAR CERTIFICATE OF DEPOSIT

Rate information

- The interest rate for your account is 5.20% with an annual percentage yield of 5.34%. You will be paid this rate until the maturity date of the certificate. Your certificate will mature on September 30, 1993. The annual percentage yield assumes interest remains on deposit until maturity. A withdrawal will reduce earnings.
- Interest for your account will be compounded daily and credited to your account on the last day of each month.
- Interest begins to accrue on the business day you deposit any noncash item (for example, checks).

Minimum-balance requirements

- You must deposit $1,000 to open this account.
- You must maintain a minimum balance of $1,000 in your account every day to obtain the annual percentage yield listed above.

Balance-computation method

- We use the daily-balance method to calculate the interest on your account. This method applies a daily periodic rate to the principal in the account each day.

Transaction limitations

- After the account is opened, you may not make deposits into or withdrawals from the account until the maturity date.

B-8—Sample Form (Certificate of Deposit Advertisement)

BANK XYZ
Always Offers You Competitive CD Rates!!

CERTIFICATES OF DEPOSIT	ANNUAL PERCENTAGE YIELD (APY)
5 Year	6.31%
4 Year	6.07%
3 Year	5.72%
2 Year	5.52%
1 Year	4.54%
6 Month	4.34%
90 Day	4.21%

APYs are offered on accounts opened from 5/9/93 through 5/18/93.

The minimum balance to open an account and obtain the APY is $1,000.

A penalty may be imposed for early withdrawal.

For more information call:
202-123-1234

B-9—Sample Form (Money Market Account Advertisement)

BANK XYZ
Always Offers You Competitive Rates!!

MONEY MARKET ACCOUNTS	ANNUAL PERCENTAGE YIELD (APY)
Accounts with a balance of $5,000 or less	5.07% *
Accounts with a balance over $5,000	5.57% *

APYs are accurate as of April 30, 1993.
* The rates may change after the account is opened. Fees could reduce the earnings on the account.

For more information call:
202-123-1234

APPENDIX C—Effect on State Laws

(a) *Inconsistent requirements.* State law requirements that are inconsistent with the requirements of the act and this regulation are preempted to the extent of the inconsistency. A state law is inconsistent if it requires a depository institution to make disclosures or take actions that contradict the requirements of the federal law. A state law is also contradictory if it requires the use of the same term to represent a different amount or a different meaning than the federal law, requires the use of a term different from that required in the federal law to describe the same item, or permits a method of calculating interest on an account different from that required in the federal law.

(b) *Preemption determinations.* A depository institution, state, or other interested party may request the Board to determine whether a state law requirement is inconsistent with the federal requirements. A request for a determination shall be in writing and addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, DC 20551. Notice that the Board intends to make a determination (either on request or on its own motion) will be published in the *Federal Register*, with an opportunity for public comment unless the Board finds that notice and opportunity for comment would be impracticable, unnecessary, or contrary to the public interest and publishes its reasons for such decision. Notice of a final determination will be published in the *Federal Register* and furnished to the party who made the request and to the appropriate state official.

(c) *Effect of preemption determinations.* After the Board determines that a state law is inconsistent, a depository institution may not make disclosures using the inconsistent term or take actions relying on the inconsistent law.

(d) *Reversal of determination.* The Board reserves the right to reverse a determination for any reason bearing on the coverage or effect of state or federal law. Notice of reversal of a determination will be published in the *Federal Register* and a copy furnished to the appropriate state official.

APPENDIX D—Issuance of Staff Interpretations

Officials in the Board's Division of Consumer and Community Affairs are authorized to issue official staff interpretations of this regulation. These interpretations provide the protections afforded under section 271(f) of the act. Except in unusual circumstances, interpretations will not be issued separately but will be incorporated in an official commentary to the regulation, which will be amended periodically. No staff interpretations will be issued approving depository institutions' forms, statements, or calculation tools or methods.

Truth in Savings Act

12 USC 4301 et seq.; 105 Stat. 2334; Publ. L. 102-242, title II, subtitle F (December 19, 1991)

Section

SECTION 261—Short Title

This subtitle may be cited as the "Truth in Savings Act".

[12 USC 4301 note.]

SECTION 262—Findings and Purpose

(a) *Findings.* The Congress hereby finds that economic stability would be enhanced, competition between depository institutions would be improved, and the ability of the consumer to make informed decisions regarding deposit accounts, and to verify accounts, would be strengthened if there was uniformity in the disclosure of terms and conditions on which interest is paid and fees are assessed in connection with such accounts.

(b) *Purpose.* It is the purpose of this subtitle to require the clear and uniform disclosure of—

(1) the rates of interest which are payable on deposit accounts by depository institutions; and

(2) the fees that are assessable against deposit accounts, so that consumers can make a meaningful comparison between the competing claims of depository institutions with regard to deposit accounts.

[12 USC 4301.]

SECTION 263—Disclosure of Interest Rates and Terms of Accounts

(a) *In general.* Except as provided in subsections (b) and (c), each advertisement, announcement, or solicitation initiated by any depository institution or deposit broker relating to any demand or interest-bearing account offered by an insured depository institution which includes any reference to a specific rate of interest payable on amounts deposited in such account, or to a specific yield or rate of earnings on amounts so deposited, shall state the following information, to the extent applicable, in a clear and conspicuous manner:

(1) The annual percentage yield.

(2) The period during which such annual percentage yield is in effect.

(3) All minimum account balance and time requirements which must be met in order to earn the advertised yield (and, in the case of accounts for which more than 1 yield is stated, each annual percentage yield and the account minimum balance requirement associated with each such yield shall be in close proximity and have equal prominence).

(4) The minimum amount of the initial deposit which is required to open the account in order to obtain the yield advertised, if such minimum amount is greater than the minimum balance necessary to earn the advertised yield.

(5) A statement that regular fees or other conditions could reduce the yield.

(6) A statement that an interest penalty is required for early withdrawal.

(b) *Disclosure required for on-premises displays.*

(1) The disclosure requirements contained in this section shall not apply to any sign (including a rate board) disclosing a rate or

rates of interest which is displayed on the premises of the depository institution if such sign contains—

(A) the accompanying annual percentage yield; and

(B) a statement that the consumer should request further information from an employee of the depository institution concerning the fees and terms applicable to the advertised account.

(2) For purposes of paragraph (1), a sign shall only be considered to be displayed on the premises of a depository institution if the sign is designed to be viewed only from the interior of the premises of the depository institution.

(c) *Broadcast and electronic media and outdoor advertising exception.* The Board may, by regulation, exempt advertisements, announcements, or solicitations made by any broadcast or electronic medium or outdoor advertising display not on the premises of the depository institution from any disclosure requirements described in paragraph (4) or (5) of subsection (a) if the Board finds that any such disclosure would be unnecessarily burdensome.

(d) *Misleading descriptions of free or no-cost accounts prohibited.* No advertisement, announcement, or solicitation made by any depository institution or deposit broker may refer to or describe an account as a free or no-cost account (or words of similar meaning) if—

(1) in order to avoid fees or service charges for any period—

(A) a minimum balance must be maintained in the account during such period; or

(B) the number of transactions during such period may not exceed a maximum number; or

(2) any regular service or transaction fee is imposed.

(d) *Misleading or inaccurate advertisements, etc., prohibited.* No depository institution or deposit broker shall make any advertisement, announcement, or solicitation relating to a deposit account that is inaccurate or misleading or that misrepresents its deposit contracts.

[12 USC 4302. As amended by act of Oct. 28, 1992 (§ 957).]

SECTION 264—Account Schedule

(a) *In general.* Each depository institution shall maintain a schedule of fees, charges, interest rates, and terms and conditions applicable to each class of accounts offered by the depository institution, in accordance with the requirements of this section and regulations which the Board shall prescribe. The Board shall specify, in regulations, which fees, charges, penalties, terms, conditions, and account restrictions must be included in a schedule required under this subsection. A depository institution need not include in such schedule any information not specified in such regulation.

(b) *Information on fees and charges.* The schedule required under subsection (a) with respect to any account shall contain the following information:

(1) A description of all fees, periodic service charges, and penalties which may be charged or assessed against the account (or against the account holder in connection with such account), the amount of any such fees, charge, or penalty (or the method by which such amount will be calculated), and the conditions under which any such amount will be assessed.

(2) All minimum balance requirements that affect fees, charges, and penalties, including a clear description of how each such minimum balance is calculated.

(3) Any minimum amount required with respect to the initial deposit in order to open the account.

(c) *Information on interest rates.* The schedule required under subsection (a) with respect to any account shall include the following information:

(1) Any annual percentage yield.

(2) The period during which any such annual percentage yield will be in effect.

(3) Any annual rate of simple interest.

(4) The frequency with which interest will be compounded and credited.

(5) A clear description of the method used to determine the balance on which interest is paid.

(6) The information described in paragraphs (1) through (4) with respect to any

period after the end of the period referred to in paragraph (2) (or the method for computing any information described in any such paragraph), if applicable.

(7) Any minimum balance which must be maintained to earn the rates and obtain the yields disclosed pursuant to this subsection and a clear description of how any such minimum balance is calculated.

(8) A clear description of any minimum time requirement which must be met in order to obtain the yields disclosed pursuant to this subsection and any information described in paragraph (1), (2), (3), or (4) that will apply if any time requirement is not met.

(9) A statement, if applicable, that any interest which has accrued but has not been credited to an account at the time of a withdrawal from the account will not be paid by the depository institution or credited to the account by reason of such withdrawal.

(10) Any provision or requirement relating to the nonpayment of interest, including any charge or penalty for early withdrawal, and the conditions under which any such charge or penalty may be assessed.

(d) *Other information.* The schedule required under subsection (a) shall include such other disclosures as the Board may determine to be necessary to allow consumers to understand and compare accounts, including frequency of interest rate adjustments, account restrictions, and renewal policies for time accounts.

(e) *Style and format.* Schedules required under subsection (a) shall be written in clear and plain language and be presented in a format designed to allow consumers to readily understand the terms of the accounts offered.

[12 USC 4303.]

SECTION 265—Disclosure Requirements for Certain Accounts

The Board shall require, in regulations which the Board shall prescribe, such modification in the disclosure requirements under this Act relating to annual percentage yield as may be necessary to carry out the purposes of this Act in the case of—

(1) accounts with respect to which determination of annual percentage yield is based on an annual rate of interest that is guaranteed for a period of less than 1 year;

(2) variable rate accounts;

(3) accounts which, pursuant to law, do not guarantee payment of a stated rate;

(4) multiple rate accounts; and

(5) accounts with respect to which determination of annual percentage yield is based on an annual rate of interest that is guaranteed for a stated term.

[12 USC 4304.]

SECTION 266—Distribution of Schedules

(a) *In general.* A schedule required under section 264 for an appropriate account shall be—

(1) made available to any person upon request;

(2) provided to any potential customer before an account is opened or a service is rendered; and

(3) provided to the depositor, in the case of any time deposit which is renewable at maturity without notice from the depositor, at least 30 days before the date of maturity.

(b) *Distribution in case of certain initial deposits.* If—

(1) a depositor is not physically present at an office of a depository institution at the time an initial deposit is accepted with respect to an account established by or for such person; and

(2) the schedule required under section 264(a) has not been furnished previously to such depositor,

the depository institution shall mail the schedule to the depositor at the address shown on the records of the depository institution for such account no later than 10 days after the date of the initial deposit.

(c) *Distribution of notice of certain changes.* If—

(1) any change is made in any term or condition which is required to be disclosed in the schedule required under section 264(a) with respect to any account; and

(2) the change may reduce the yield or adversely affect any holder of the account,

all account holders who may be affected by such change shall be notified and provided with a description of the change by mail at least 30 days before the change takes effect.

(d) *Distribution in case of accounts established by more than 1 individual or by a group.* If an account is established by more than 1 individual or for a person other than an individual, any distribution described in this section with respect to such account meets the requirements of this section if the distribution is made to 1 of the individuals who established the account or 1 individual representative of the person on whose behalf such account was established.

(e) *Notice to account holders as of the effective date of regulations.* For any account for which the depository institution delivers an account statement on a quarterly or more frequent basis, the depository institution shall include on or with any regularly scheduled mailing posted or delivered within 180 days after publication of regulations issued by the Board in final form, a statement that the account holder has the right to request an account schedule containing the terms, charges, and interest rates of the account, and that the account holder may wish to request such an account schedule.

[12 USC 4305.]

SECTION 267—Payment of Interest

(a) *Calculated on full amount of principal.* Interest on an interest-bearing account at any depository institution shall be calculated by such institution on the full amount of principal in the account for each day of the stated calculation period at the rate or rates of interest disclosed pursuant to this Act.

(b) *No particular method of compounding interest required.* Subsection (a) shall not be construed as prohibiting or requiring the use of any particular method of compounding or crediting of interest.

(c) *Date by which interest must accrue.* Interest on accounts that are subject to this Act shall begin to accrue not later than the business day specified for interest-bearing accounts in section 606 of the Expedited Funds Availability Act, subject to subsections (b) and (c) of such section.

[12 USC 4306.]

SECTION 268—Periodic Statements

Each depository institution shall include on or with each periodic statement provided to each account holder at such institution a clear and conspicuous disclosure of the following information with respect to such account:

(1) The annual percentage yield earned.

(2) The amount of interest earned.

(3) The amount of any fees or charges imposed.

(4) The number of days in the reporting period.

[12 USC 4307.]

SECTION 269—Regulations

(a) *In general.*

(1) Before the end of the 9-month period beginning on the date of the enactment of this Act, the Board, after consultation with each agency referred to in section 270(a) and public notice and opportunity for comment, shall prescribe regulations to carry out the purpose and provisions of this Act.

(2) The regulations prescribed under paragraph (1) shall take effect not later than 9 months after publication in final form.

(3) The regulations prescribed under paragraph (1) may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of accounts as, in the judgment of the Board, are necessary or proper to carry out the purposes of this Act, to prevent circumvention or evasion of the requirements of this Act, or to facilitate compliance with the requirements of this Act.

(4) The provisions of this Act shall not apply with respect to any depository institu-

tion before the effective date of regulations prescribed by the Board under this subsection (or by the National Credit Union Administration Board under section 12(b), in the case of any depository institution described in clause (iv) of section 19(b)(1)(A) of the Federal Reserve Act).

(b) *Model forms and clauses.*

(1) The Board shall publish model forms and clauses for common disclosures to facilitate compliance with this Act. In devising such forms, the Board shall consider the use by depository institutions of data processing or similar automated machines.

(2) Nothing in this Act may be construed to require a depository institution to use any such model form or clause prescribed by the Board under this subsection. A depository institution shall be deemed to be in compliance with the disclosure provisions of this Act if the depository institution—

(A) uses any appropriate model form or clause as published by the Board; or

(B) uses any such model form or clause and changes it by—

(i) deleting any information which is not required by this Act; or

(ii) rearranging the format,

if in making such deletion or rearranging the format, the depository institution does not affect the substance, clarity, or meaningful sequence of the disclosure.

(3) Model disclosure forms and clauses shall be adopted by the Board after duly given notice in the Federal Register and an opportunity for public comment in accordance with section 553 of title 5, United States Code.

[12 USC 4308.]

SECTION 270—Administrative Enforcement

(a) *In general.* Compliance with the requirements imposed under this Act shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act—

(A) by the appropriate Federal banking agency (as defined in section 3(q) of the Federal Deposit Insurance Act) in the case of insured depository institutions (as defined in section 3(c)(2) of such Act);

(B) by the Federal Deposit Insurance Corporation in the case of depository institutions described in clause (i), (ii), or (iii) of section 19(b)(1)(A) of the Federal Reserve Act which are not insured depository institutions (as defined in section 3(c)(2) of the Federal Deposit Insurance Act); and

(C) by the Director of the Office of Thrift Supervision in the case of depository institutions described in clause (v) and or (vi) of section 19(b)(1)(A) of the Federal Reserve Act which are not insured depository institutions (as defined in section 3(c)(2) of the Federal Deposit Insurance Act); and

(2) the Federal Credit Union Act, by the National Credit Union Administration Board in the case of depository institutions described in clause (iv) of section 19(b)(1)(A) of the Federal Reserve Act.

(b) *Additional enforcement powers.*

(1) For purposes of the exercise by any agency referred to in subsection (a) of such agency's powers under any Act referred to in such subsection, a violation of a requirement imposed under this Act shall be deemed to be a violation of a requirement imposed under that Act.

(2) In addition to the powers of any agency referred to in subsection (a) under any provision of law specifically referred to in such subsection, each such agency may exercise, for purposes of enforcing compliance with any requirement imposed under this Act, any other authority conferred on such agency by law.

(c) *Regulations by agencies other than the board.* The authority of the Board to issue regulations under this Act does not impair the authority of any other agency referred to in subsection (a) to make rules regarding its own procedures in enforcing compliance with the requirements imposed under this Act.

[12 USC 4309.]

SECTION 271—Civil Liability

(a) *Civil liability.* Except as otherwise provided in this section, any depository institution which fails to comply with any requirement imposed under this Act or any regulation prescribed under this Act with respect to any person who is an account holder is liable to such person in an amount equal to the sum of—

(1) any actual damage sustained by such person as a result of the failure;

(2)(A) in the case of an individual action, such additional amount as the court may allow, except that the liability under this subparagraph shall not be less than $100 nor greater than $1,000; or

(B) in the case of a class action, such amount as the court may allow, except that—

(i) as to each member of the class, no minimum recovery shall be applicable; and

(ii) the total recovery under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same depository institution shall not be more than the lesser of $500,000 or 1 percent of the net worth of the depository institution involved; and

(3) in the case of any successful action to enforce any liability under paragraph (1) or (2), the costs of the action, together with a reasonable attorney's fee as determined by the court.

(b) *Class action awards.* In determining the amount of any award in any class action, the court shall consider, among other relevant factors—

(1) the amount of any actual damages awarded;

(2) the frequency and persistence of failures of compliance;

(3) the resources of the depository institution;

(4) the number of persons adversely affected; and

(5) the extent to which the failure of compliance was intentional.

(c) *Bona fide errors.*

(1) A depository institution may not be held liable in any action brought under this section for a violation of this Act if the depository institution demonstrates by a preponderance of the evidence that the violation was not intentional and resulted from a bona fide error, notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

(2) Examples of a bona fide error include clerical, calculation, computer malfunction and programming, and printing errors, except that an error of legal judgment with respect to a depository institution's obligation under this Act is not a bona fide error.

(d) *No liability for overpayment.* A depository institution may not be held liable in any action under this section for a violation of this Act if the violation has resulted in—

(1) an interest payment to the account holder in an amount greater than the amount determined under any disclosed rate of interest applicable with respect to such payment; or

(2) a charge to the consumer in an amount less than the amount determined under the disclosed charge or fee schedule applicable with respect to such charge.

(e) *Jurisdiction.* Any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within 1 year after the date of the occurrence of the violation involved.

(f) *Reliance on board rulings.* No provision of this section imposing any liability shall apply to any act done or omitted in good faith in conformity with any regulation or order, or any interpretation of any regulation or order, of the Board, or in conformity with any interpretation or approval by an official or employee of the Board duly authorized by the Board to issue such interpretation or approval under procedures prescribed by the Board, notwithstanding the fact that after such act or omission has occurred, such regulation, order, interpretation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

(g) *Notification of and adjustment for errors.*

A depository institution shall not be liable under this section or section 270 for any failure to comply with any requirement imposed under this Act with respect to any account if—

(1) before—

(A) the end of the 60-day period beginning on the date on which the depository institution discovered the failure to comply;

(B) any action is instituted against the depository institution by the account holder under this section with respect to such failure to comply; and

(C) any written notice of such failure to comply is received by the depository institution from the account holder,

the depository institution notifies the account holder of the failure of such institution to comply with such requirement; and

(2) the depository institution makes such adjustments as may be necessary with respect to such account to ensure that—

(A) the account holder will not be liable for any amount in excess of the amount actually disclosed with respect to any fee or charge;

(B) the account holder will not be liable for any fee or charge imposed under any condition not actually disclosed; and

(C) interest on amounts in such account will accrue at the annual percentage yield, and under the conditions, actually disclosed (and credit will be provided for interest already accrued at a different annual percentage yield and under different conditions than the yield or conditions disclosed).

(h) *Multiple interests in 1 account.* If more than 1 person holds an interest in any account—

(1) the minimum and maximum amounts of liability under subsection (a)(2)(A) for any failure to comply with the requirements of this Act shall apply with respect to such account; and

(2) the court shall determine the manner in which the amount of any such liability with respect to such account shall be distributed among such persons.

(i) *Continuing failure to disclose.*

(1) Except as provided in paragraph (2), the continuing failure of any depository institution to disclose any particular term required to be disclosed under this Act with respect to a particular account shall be treated as a single violation for purposes of determining the amount of any liability of such institution under subsection (a) for such failure to disclose.

(2) The continuing failure of any depository institution to disclose any particular term required to be disclosed under this Act with respect to a particular account after judgment has been rendered in favor of the account holder in connection with a prior failure to disclose such term with respect to such account shall be treated as a subsequent violation for purposes of determining liability under subsection (a).

(3) This subsection shall not limit or otherwise affect the enforcement power under section 270 of any agency referred to in subsection (a) of such section.

[12 USC 4310.]

SECTION 272—Credit Unions

(a) *In general.* No regulation prescribed by the Board under this Act shall apply directly with respect to any depository institution described in clause (iv) of section 19(b)(1)(A) of the Federal Reserve Act.

(b) *Regulations prescribed by the NCUA.* Within 90 days of the effective date of any regulation prescribed by the Board under this Act, the National Credit Union Administration Board shall prescribe a regulation substantially similar to the regulation prescribed by the Board taking into account the unique nature of credit unions and the limitations under which they may pay dividends on member accounts.

[12 USC 4311.]

SECTION 273—Effect on State Law

The provisions of this Act do not supersede any provisions of the law of any State relating to the disclosure of yields payable or terms for accounts to the extent such State law requires the disclosure of such yields or terms for accounts, except to the extent that those laws are inconsistent with the provisions of this Act, and then only to the extent of the inconsistency. The Board may determine whether such inconsistencies exist.

[12 USC 4312.]

SECTION 274—Definitions

For the purposes of this Act—

(1) The term *"account"* means any account offered to 1 or more individuals or an unincorporated nonbusiness association of individuals by a depository institution into which a customer deposits funds, including demand accounts, time accounts, negotiable order of withdrawal accounts, and share draft accounts.

(2) The term *"annual percentage yield"* means the total amount of interest that would be received on a $100 deposit, based on the annual rate of simple interest and the frequency of compounding for a 365-day period, expressed as a percentage calculated by a method which shall be prescribed by the Board in regulations.

(3) The term *"annual rate of simple interest"*—

(A) means the annualized rate of interest paid with respect to each compounding period, expressed as a percentage; and

(B) may be referred to as the "annual percentage rate".

(4) The term *"Board"* means the Board of Governors of the Federal Reserve System.

(5) The term *"deposit broker"*—

(A) has the meaning given to such term in section 29(f)(1) of the Federal Deposit Insurance Act; and

(B) includes any person who solicits any amount from any other person for deposit in an insured depository institution.

(6) The term *"depository institution"* has the meaning given such term in clauses (i) through (vi) of section 19(b)(1)(A) of the Federal Reserve Act.

(7) The term *"interest"* includes dividends paid with respect to share draft accounts which are accounts within the meaning of paragraph (3).

(8) The term *"multiple rate account"* means any account that has 2 or more annual rates of simple interest which take effect at the same time or in succeeding periods and which are known at the time of disclosure.

[12 USC 4313.]