

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10632**]
March 29, 1993]

TRUTH IN SAVINGS
— Amendments to Regulation DD
— Delay of Effective Date of Amendment to Regulation Q

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

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has published a final rule amending Regulation DD (Truth in Savings) to carry out recent changes made to the Truth in Savings Act by the Housing and Community Development Act of 1992.

The law extends the mandatory date for compliance with the requirements of the Truth in Savings Act by three months, so that institutions must comply by June 21, 1993, rather than March 21, 1993. The law also modifies the advertising rules relating to signs on the premises of an institution, and makes a technical change to the provision dealing with notices required to be given to existing account holders.

In addition, the Board is making two minor changes to the regulation and providing guidance on several issues that have been raised by institutions since publication of the final regulation in September 1992.

The Board also is issuing a technical amendment to Regulation Q.

Enclosed, for depository institutions and others who maintain sets of the Board's regulations, are the texts of the amendments to Regulation DD and of a related change to the Board's Regulation Q (prohibiting the payment of interest on demand deposits), as published in the *Federal Register* of March 19. Additional, single copies may be obtained at this Bank (33 Liberty Street) from the Issues Division on the first floor, or by calling our Circulares Division (Tel. No. 212-720-5215 or 5216).

E. GERALD CORRIGAN,
President.

Board of Governors of the Federal Reserve System

TECHNICAL AMENDMENT TO REGULATION Q

Delay of Effective Date of Prior Amendments

FEDERAL RESERVE SYSTEM

12 CFR Part 217

[Regulation Q, Docket No. R-0775]

Prohibition Against the Payment of Interest on Demand Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule; delay of effective date.

SUMMARY: The Board is delaying the effective date of the final rule, published on September 21, 1992, which amended Regulation Q in conjunction with its amendments to Regulation DD, which implemented the Truth in Savings Act. Deletion of the advertising rules in Regulation Q is delayed by three months until June 21, 1993. Regulation Q retains provisions prohibiting the payment of interest on demand deposits.

EFFECTIVE DATE: Effective March 19, 1993, the effective date for the amendments to part 217 which were published at 57 FR 43336 is delayed

until June 21, 1993.

FOR FURTHER INFORMATION CONTACT: Patrick J. McDivitt, Staff Attorney, Legal Division, Board of Governors of the Federal Reserve System, Washington, DC 20551, at (202) 452-3818; for the hearing impaired only, contact Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

(1) Background

The Truth in Savings Act (Act) (12 U.S.C. 4301) directs the Board to issue an implementing regulation, which shall apply six months after the final regulation is issued. At the same time the Board issued implementing regulations on September 21, 1992 (57 FR 43337), it amended Regulation Q (57 FR 43336) to provide that rules dealing with advertising of deposit accounts were eliminated, effective March 21, 1993. Regulation Q sets forth disclosure and advertising rules for interest on deposits by member banks and certain other institutions.

The Housing and Community

Development Act (HCDA), enacted in October 1992 (Pub. L. 102-550, 106 Stat. 3672), amended the act by extending the mandatory compliance date by three months. In light of that delay, the Board is delaying the effective date of the advertising and other disclosure rules in Regulation Q from March 21, 1993, to June 21, 1993, the new mandatory compliance date for Regulation DD. (See Docket R-0791 elsewhere in today's **Federal Register**, which sets forth the amendments to Regulation DD.) Institutions that begin compliance with Regulation DD prior to the mandatory compliance date may comply solely with the advertising provisions of Regulation DD, and not the advertising and disclosure provisions in Regulation Q.

By order of the Board of Governors of the Federal Reserve System, March 12, 1993.

Jennifer J. Johnson,

Associate Secretary of the Board.

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**REGULATION DD —
TRUTH IN SAVINGS**

*Effective March 21, 1993; compliance optional
until June 21, 1993*

or Mary Jane Seebach, Staff Attorneys, Division of Consumer and Community Affairs, at (202) 736-5500; for the hearing impaired only contact Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

(1) Background

The Truth in Savings Act ("act") (contained in the Federal Deposit Insurance Corporation Improvement Act of 1991) was enacted in December 1991. The Board published proposed rules to implement the act on April 13, 1992 (57 FR 12735), and published final regulations on September 21, 1992 (57 FR 43337) (correction notice at 57 FR 46480, October 9, 1992).

The Housing and Community Development Act (HCDA) was enacted into law in October 1992 (Pub. L. 102-550, 106 Stat. 3672). The law contains three provisions that amend the Truth in Savings Act. The provisions extend the effective date for compliance with the act by three months, reduce the requirements that apply to some advertisements on the premises of a depository institution, and modify the provision that requires a notice to be given to existing account holders alerting them to the availability of account disclosures.

On January 5, 1993, the Board published a proposal to implement these amendments (58 FR 271). In addition to proposing rules to implement the statutory changes, the Board solicited comment on whether to adopt a technical change to the regulation, and proposed to provide guidance on several issues raised by institutions since adoption of the final rules. The Board received 108 comments on the proposal. Based on a review of the comments and further analysis the Board is taking final action.

(2) Regulatory Provisions

Mandatory Compliance Date

Section 957(b) of the HCDA amended section 269(a)(2) of the Truth in Savings Act, extending the mandatory compliance date for three months. The Board proposed to change the compliance date from March 21, 1993 to June 21, 1993, and the final rule reflects that change. The definition of "account" under 230.2(a) states that existing accounts held by an unincorporated nonbusiness association of natural persons prior to March 21, 1993 are not included in the term. The final rule changes the date to June 21, 1993. The change to the regulation also supersedes all references to an effective date of March 21, 1993, appearing in the

12 CFR Part 230

[Regulation DD; Docket No. R-0791]

Truth in Savings; Regulatory Amendments

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is publishing a final rule amending Regulation DD (Truth in Savings) to implement recent changes made to the Truth in Savings Act by the Housing and Community Development Act of 1992. The law extends the mandatory date for compliance with the requirements of the Truth in Savings Act by three months, so that institutions must comply by June 21, 1993, rather than March 21, 1993. The law also modifies the advertising rules relating to signs on the premises of an institution, and makes a technical change to the provision dealing with notices required to be given to existing account holders. In addition, the Board is making two minor changes to the regulation and providing guidance on several issues that have been raised by institutions since publication of the final regulation in September 1992.

DATES: This final rule is effective March 21, 1993. Compliance is optional until June 21, 1993. Compliance with the amendment to part II of appendix A of part 230 is optional until December 21, 1993.

FOR FURTHER INFORMATION CONTACT: Jane Ahrens, Kyung Cho, Kurt Schumacher,

supplementary information to the final regulation.

Elsewhere in this issue of the *Federal Register*, as proposed, the Board is delaying the effective date of the deletion of Regulation Q's advertisement and disclosure rules until June 21, 1993. Institutions may, however, comply solely with the advertising provisions in Regulation DD prior to June 21, 1993, and not the advertising and disclosure provisions in Regulation Q.

Section 230.4—Account Disclosures

(c) Notice to Existing Account Holders

(1) *Notice of availability of disclosures.* Section 957(b) of the HCDA extended the mandatory compliance date from 6 months to 9 months after the Board's issuance of a final rule. In addition, section 1604(e) amended section 266(e) of the Truth in Savings Act to require that the notice to existing account holders be sent "on or with the first regularly scheduled mailing sent after the end of the '6 month period' beginning on the date of publication" of the Board's implementing regulations.

If the revisions to sections 957(b) and 1604(e) were read literally, institutions would be required to provide the notice to existing consumer account holders on or with the first periodic statement sent after March 21, 1993, even though the effective date has been delayed. The Board believes the Congress intended to grant institutions an additional three months to comply with the disclosure duty. The Board solicited comment on amending § 230.4(c) of the regulation to require that notice be given on or with the first periodic statement sent on or after the mandatory compliance date of June 21, 1993 (or the first periodic statement for a statement cycle beginning on or after that date). Commenters urged the Board to adopt this interpretation. They stated that a notice to consumers before the June 21, 1993, mandatory compliance date would be useless (and perhaps confusing) since account disclosures might not be available at depository institutions. To facilitate compliance and avoid consumer confusion, the Board is exercising its exception authority under section 269(a)(3) of the act to extend the time to send notices to existing account holders by three months, to June 21, 1993.

Section 230.5—Subsequent Disclosures

(a) Change in Terms

(2) *No notice required.*—(ii) *Check printing fees.* The act and regulation require depository institutions to provide a 30-day advance notice to

consumers of any change in a previously disclosed term that may adversely affect the consumer. In its September 1992 rulemaking, the Board used its authority to create a limited exception to the notice requirements for changes in check printing fees "assessed by third parties." In the proposal issued in January 1993, the Board solicited comment on whether the exception should be broadened to apply to any check printing fees—whether the fee is assessed by a third party or by the institution itself.

Commenters strongly supported exempting all check printing fees from the change in terms notice. Commenters noted that these fees are based on the style and quantity of checks ordered, and the consumer has primary control over such decisions. Consequently, sending a change in terms notice for such fees would provide minimal benefit to consumers while imposing a significant burden on institutions. The final rule provides that a change in terms notice is not required for any increase in fees for printing checks. The rule allows an institution to take advantage of the exception even if it adds a "mark-up" to the price charged by the vendor before passing the fee on to the consumer.

The Board also proposed that check printing fees are not maintenance or activity fees for purposes of the advertising rules in § 230.8(a), whether the institution or a third party imposes the fee. Section 230.8(a) prohibits institutions from advertising an account as "free" or "no cost" if any "maintenance or activity" fee might be imposed. The Board believes that check printing fees are not maintenance or activity fees even if imposed in whole or in part by the institution.

Section 230.8—Advertising

(e) Exemption for Certain Advertisements

Section 263 of the act was amended by the HCDA to provide that if a rate is displayed on a sign designed to be viewed only from the interior of an institution, the sign need only include the annual percentage yield and a statement advising consumers to ask employees about fees and terms applicable to the advertised account. Such signs need not provide other information required under section 263(a) of the act, such as the statement that fees could reduce earnings on the account.

The proposal provided for abbreviated disclosure requirements for "lobby signs facing inside" a depository institution (or facing inside the premises of a

deposit broker). The Board proposed to use a "facing inside" standard rather than the "intent" standard of the amendment. Many commenters were concerned about the certainty of compliance with either standard. Commenters noted that many branches and main offices are often enclosed by glass or are located in grocery stores or shopping malls where signs visible to customers are also visible to passersby. The Board believes that the Congress intended to permit abbreviated disclosures for signs inside an institution's premises, unless the sign faces outside and can reasonably be viewed by a consumer only from outside the premises.

The final rule provides a clearer standard for determining what signs are eligible for the exception. The final rule exempts any sign inside the premises of a depository institution (or the premises of a deposit broker), unless the sign faces outside and can reasonably be viewed by a consumer only from outside the premises. The Board believes that the standard captures the Congress' goal to require full disclosures for advertisements that are clearly designed to be viewed by persons not inside a depository institution. The rule also avoids the uncertainty of compliance when, for example, a sign behind a teller and facing customers at a small, glass-enclosed branch can also be seen by passersby. Such a sign would be an exempt indoor sign.

The final regulation does not define "lobby sign." Most commenters stated that a definition was unnecessary. Commenters stated that depository institutions increasingly conduct business in retail malls or grocery stores where there is little or no "lobby" area; therefore, references to "lobby" in the final regulation have been deleted.

The regulation exempts indoor advertisements however they are displayed, such as banners, preprinted posters, and chalk or peg boards—whether affixed to a wall or displayed on one or both sides of an easel. Indoor advertisements on computer screens and electronic media are also exempt. Of course, an advertisement affixed to a window and facing outside remains subject to the general advertising rules, since it can reasonably be viewed only from outside the institution. Any sign or notice inside the premises that can be retained by a consumer (such as a brochure or a print-out from a computer) also is subject to the general advertising rules, as are signs on the exterior of a depository institution.

The final rule retains for indoor signs the prohibition against misleading or inaccurate advertisements, and thus

against the description of accounts as "free" if a maintenance or activity fee is imposed.

The HDCA amendment to section 263(c) of the act states that the display of any rate on an indoor sign triggers the disclosure of the annual percentage yield. The statute does not require that the figure be described as "annual percentage yield." The regulation currently requires that in all cases, if a rate of return is advertised, it must be stated as the annual percentage yield, using that term. The Board solicited comment on whether rates on a lobby sign should be identified as the annual percentage yield or by the abbreviation "APY." The vast majority of commenters supported the proposal, primarily to promote uniformity and consistency in disclosures used by consumers in comparison shopping. The final rule provides that if a rate is displayed on an indoor sign, only the annual percentage yield, using that term or the abbreviation "APY," need be stated along with a statement that consumers should ask employees about fees and terms for the account.

Finally, the proposal exempted lobby signs from the disclosure requirements under paragraphs (b), (c) and (d) of section 230.8, whether or not a rate is stated. Commenters supported the proposal. The final rule adopts the proposal, with the addition of paragraph (e)(1). Thus, any bonus displayed on an indoor sign that meets the test in section 230.8(e)(2)(i) would not trigger additional disclosures.

Appendix A to Part 230—Annual Percentage Yield Calculation

Additional Formula for Certain Accounts

The Board solicited comment on whether an additional formula should be added to Appendix A, Part II, to calculate the annual percentage yield earned on the periodic statement for accounts in certain cases. The Board had received inquiries about the applicability of the current formula in certain situations. Institutions that use the daily balance method to accrue interest noted that if a periodic statement is sent more frequently than the period for which interest is compounded, the annual percentage yield earned could be higher than the annual percentage yield provided in advertisements and opening account disclosures. This would be the case, for example, when an institution uses the daily balance method of accruing interest and compounds interest annually, but provides monthly periodic statements. If an institution pays a 5%

interest rate and compounds annually, it would disclose an annual percentage yield of 5.00% in its advertisements and initial account disclosures. However, under the general annual percentage yield earned formula, the institution would show \$4.11 of interest accrued on \$1,000 of principal on a monthly periodic statement reflecting 30 days, and an annual percentage yield earned of 5.12% on that statement.

Most commenters asked the Board to adopt the proposed alternative annual percentage yield earned formula for use in such cases. They expressed concern that consumers would be confused or misled by the use of an annual percentage yield earned figure that is higher than the initially disclosed annual percentage yield. In response to comments received and upon further analysis, the Board is adopting the proposed formula. The formula must be used when an institution uses the daily balance method to accrue interest and when a periodic statement is sent more often than the period for which interest is compounded.

The Board also solicited comment on whether the use of this new formula should be optional or required. While the majority of commenters believed that the formula should be adopted, they were divided on whether its use should be required. Some commenters stated that it should be made optional, given the brief time remaining before the mandatory compliance date. These commenters said that requiring institutions and vendors to develop and have in place a new formula by June 21, 1993, would be a significant burden, and that institutions might not be able to achieve full compliance by that date.

The Board believes it is essential for institutions to calculate the annual percentage yield earned in a way that ensures information provided to consumers is accurate and not misleading. The Board agrees, however, that mandating the use of this formula as of June 21, 1993, could impose a substantial burden on institutions. Therefore, the Board is using its exception authority in section 269(a)(3) of the act to provide a delay in the mandatory compliance date. As applicable, institutions will be required to use this special formula beginning with the first periodic statement sent on or after December 21, 1993 (or with the first periodic statement for a statement cycle beginning on or after that date). For periodic statements sent prior to that date institutions may utilize the general formula provided in Appendix A for computing the annual percentage yield earned. The Board believes that an extension of six months from June 21,

1993, is appropriate to allow institutions about nine months to implement the necessary changes in their operating systems.

While the definitions that apply to the general formula in Appendix A, Part II apply to the new formula as well, the Board has added a definition of "compounding" to the final rule. This definition differs from the proposed definition (where compounding was defined as the "frequency with which interest is compounded, expressed as a number of days"). Several commenters mistakenly believed the proposed definition referred to the frequency of compounding periods in a year. The final rule clarifies that "compounding" is the number of days in each compounding period. For example, quarterly compounding is to be expressed as 91.25 days in the compounding period; semi-annual compounding is to be expressed as 182.5; and annual compounding is to be expressed as 365.

The Board has added an example of the computation of an annual percentage yield earned that utilizes the special formula. Finally, the Board has rearranged the format of this section in the appendix to reflect the adoption of the special formula.

(3) Additional Guidance

Section 230.2(q)—Periodic Statement

The regulation defines a periodic statement as one sent to a consumer "on a regular basis four or more times a year." The supplementary information accompanying the final rule stated that if an institution provides a statement to meet other legal requirements (for example, to comply with Regulation E), such a statement is a periodic statement for purposes of Regulation DD.

The Board solicited comment on whether certain Regulation E statements should be considered periodic statements for purposes of Regulation DD. (Regulation E requires a statement to be sent for each monthly or shorter cycle in which an electronic fund transfer has occurred, but at least quarterly if no transfer has occurred (12 CFR 205.9(b)).) The Board proposed that if an institution provides regular quarterly statements, and in addition provides a monthly statement when a transfer has occurred (to comply with Regulation E), the monthly statement is not a periodic statement for Regulation DD purposes.

Most commenters supported the Board's proposal. These commenters agreed that monthly statements are not sent on a "regular basis" if they are sent only when an electronic transfer occurs

during the month. Many commenters believed, however, that institutions should not be precluded from treating these Regulation E statements as periodic statements for purposes of Regulation DD. A number of institutions are already prepared to include the Regulation DD disclosures on the "interim" Regulation E statements that they generate.

The Board believes that a flexible approach is desirable. Whether the interim statement is deemed a Regulation DD statement or not, consumers will receive full disclosures for all activity in the quarter. If the institution opts to make Regulation DD disclosures on the interim statement, consumers benefit from receiving account information sooner rather than later. A flexible rule also minimizes the burden of compliance on institutions that already have their programs in place and would otherwise be required to make significant revisions to their systems.

Therefore, consistent with the proposal, institutions that regularly provide quarterly statements need not, but may, treat any monthly Regulation E statements as periodic statements for Regulation DD purposes. For institutions that choose not to do so, the quarterly statement must reflect the annual percentage yield earned and interest earned for the full quarter. Institutions that use the average daily balance method and calculate interest for a period other than the statement period must use the special rule in § 230.6(b.) If an institution chooses to provide interest or rate information on these interim statements, however, the statement would be deemed a Regulation DD statement, and be subject to the periodic statement disclosure rules.

Institutions that treat Regulation E statements as Regulation DD periodic statements must provide information for the period since the last statement was issued. For example, an institution may issue quarterly periodic statements in March, June, September, and December. If the consumer initiates an electronic fund transfer in February, an interim statement would be provided. An institution treating that February statement as a Regulation DD statement must reflect all interest earned and an annual percentage yield earned for the period since the previous DD statement was issued in December. Disclosures of the interest earned and the annual percentage yield earned on the next statement (March) would not repeat interest information disclosed on the February statement. Thus, the March statement would only reflect interest

earned and an annual percentage yield earned for the month of March and would not repeat or aggregate such interest information for the entire quarter. As the periodic statement disclosures are intended to provide the consumer with a "snapshot" of how much interest was earned during a specific period, the Board believes subsequent statements must not repeat or incorporate interest earned or the annual percentage yield earned for previous periods that have already been disclosed.

The Board also solicited comment on whether institutions should have to redisclose fees on a quarterly statement if the fees were reflected in a prior monthly statement to comply with Regulation E. Many commenters believed that fees disclosed in the monthly Regulation E statement should not be repeated in the quarterly periodic statement. These commenters were concerned that consumers might be confused if the same fees were disclosed twice—once in the month the fee was incurred and again on a quarterly statement.

For institutions that issue a statement to comply with the requirements of Regulation E only, the Board believes disclosing fees on the monthly statement is sufficient and that the same fees need not be redisclosed on the quarterly statement. Institutions asked how they should treat fees that are not required to be disclosed on the interim Regulation E statements (for example, fees unrelated to electronic fund transfers) but that the institution provides on that statement. Fees (for example, per check fees or stop payment fees) disclosed on a monthly statement need not be redisclosed on the quarterly statement. On the other hand, if an institution imposes such fees during the period and does not disclose them on the monthly statement, such fees must be reflected on the quarterly statement to meet the requirements of § 230.6.

Account Balance Information

Several commenters raised another issue related to the definition of a periodic statement. Currently, many institutions include on the periodic statement for one account "status information" for other accounts held at the same institution. For example, a monthly statement for a consumer's checking account may also provide the account number and balance of the consumer's savings account. In addition, a full periodic statement for the savings account is sent on a quarterly basis. Commenters stated that providing balance information on the periodic statement for another account

serves several purposes. For example, if a minimum balance fee on a checking account depends on the combined balance in a consumer's savings and checking accounts, balance information on the savings account helps the consumer understand that the fee was properly assessed. Balance information also enables consumers to monitor total deposits maintained at an institution. For example, an institution may include balance information for a money market deposit account (MMDA) on the monthly statement for a NOW account, even though the MMDA account also receives a monthly statement, but on a different cycle.

Commenters requested that institutions be allowed to provide the account number, type of account and balance information for one account (for example, a MMDA) on the periodic statement for another account without having to provide complete disclosures required by § 230.6 for the MMDA. Institutions have stated that without such a rule they may stop providing balance information about other deposit accounts on periodic statements, due to the difficulty and costs associated with calculating an annual percentage yield earned for odd short periods, and the limited space available on periodic statements to provide such information.

In the final regulation issued in September 1992, the Board recognized this problem, as well as the benefits of receiving secondary account information. The definition of periodic statement excludes information about time accounts and passbook savings accounts, so that institutions may give information about such accounts without triggering the periodic statement disclosure rules. Commenters believe, however, that the exemption from the definition of periodic statement should be broadened to allow balance information for an account that appears on the periodic statement of another account.

The Board agrees there are significant reasons to allow institutions to provide account balance information for one or more accounts on the periodic statement for another account, without triggering the duty to provide complete periodic statement disclosures. Thus, an institution may provide the account number, the type of account, and balance information for an account on a periodic statement given for another account. This rule may be used only to provide balance information for accounts that receive periodic statements. Under this interpretation, the consumer will always receive a regular statement with full Regulation DD disclosures in addition to the

balance information. For example, if an institution issues quarterly periodic statements for savings accounts, and monthly statements for MMDAs, disclosing balance information for the savings account and the MMDA on monthly checking account statements will not trigger full periodic statement disclosures for the savings account or the MMDA on the monthly checking account statements. However, providing information other than the balance in an account on the checking account statement (for example, the current interest rate being paid on the MMDA) would require the institution to give full disclosures for the MMDA on the checking account statement. (The existing exemption for time accounts and passbook savings accounts is unaffected by this rule).

Appendix A to Part 230—Annual Percentage Yield Calculation

Use of "Ledger" and "Collected" Balance To Calculate the Annual Percentage Yield Earned

The Board proposed to address a second issue in Part II of Appendix A. The annual percentage yield earned reflects the relation between the amount of interest earned and the account balance for the period reflected on the statement. The Board was previously asked how the balance figure should be determined when an institution uses a "collected" balance method of accruing interest.

The final rule issued in September 1992 allows institutions to *accrue interest* using either the collected or ledger balance method. In its January proposal, the Board stated that whichever method was used to accrue interest, institutions should use the *ledger*—and not the collected—balance in the account for calculating the annual percentage yield earned. The Board noted its belief that using the ledger balance for the periodic statement cycle provides a more accurate yield figure since it demonstrates the difference between institutions that accrue interest using a collected balance compared to those that use a ledger balance.

Many commenters expressed great concern over the Board's proposed position. They stated institutions that accrue interest using the collected balance method do not have the computer capability to use a ledger balance for calculating the annual percentage yield earned. They further stated that developing such a capability would be expensive and could not be done prior to the mandatory compliance date without substantial difficulty, if at all. Some commenters noted that

because the Board's final rule was silent about which balance should be used, they had proceeded with implementing the rule based on the assumption that the collected balance could be used in determining the annual percentage yield earned. Commenters suggested that using the ledger balance would not result in a significantly different annual percentage yield earned figure, since the difference between the date a deposit is entered on a ledger balance and on a collected balance is often only one day.

In response to the comments and upon further analysis, the final regulation permits institutions that accrue interest using the collected balance method to use either the ledger balance or the collected balance in determining the annual percentage yield earned. (Of course, if an institution accrues interest using a ledger balance method, it would use the ledger balance to determine the annual percentage yield earned.) Either method will produce very similar results in most cases, given the typically short interval between the deposit of an item and its collection. Moreover, since institutions must describe whether they accrue interest by using a ledger or a collected balance, consumers will have this information to compare institutions' interest accrual policies. (See section 230.4(b)(3)(iii).) In addition, the interest figure disclosed on the periodic statement will reflect whichever method an institution uses to accrue interest. Finally, the Board believes permitting the use of either a ledger or a collected balance to calculate the annual percentage yield earned will minimize compliance costs and burdens on institutions, since many institutions proceeded with implementing the rule based on the assumption that the collected balance could be used in computing the annual percentage yield earned.

(4) Regulatory Flexibility Analysis and Paperwork Reduction Act

The change to the regulation is likely to have an insignificant impact on institutions' costs, including those of small institutions.

(5) List of Subjects in 12 CFR Part 230

Advertising, Banks, Banking, Consumer protection, Deposit accounts, Interest, Interest rates, Federal Reserve System, Truth in savings.

For the reasons set forth in the preamble, 12 CFR part 230 is amended as follows:

PART 230—TRUTH IN SAVINGS

1. The authority citation for part 230 continues to read as follows:

Authority: 12 U.S.C. 4301 et. seq.

2. Section 230.2 is amended by revising the last sentence in paragraph (a) to read as follows:

§ 230.2 Definitions.

* * * * *

(a) * * * The term does not include an existing account held by an unincorporated nonbusiness association of natural persons prior to June 21, 1993, unless the association notifies the institution that it meets the definition of "consumer."

* * * * *

3. Section 230.4 is amended by revising the first and second sentences in paragraph (c)(1) to read as follows:

§ 230.4 Account disclosures.

* * * * *

(c) * * * (1) * * * 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 June 21, 1993. The notice shall be included on or with the first periodic statement sent on or after June 21, 1993 (or on or with the first periodic statement for a statement cycle beginning on or after that date). * * *

* * * * *

4. Section 230.5 is amended by revising paragraph (a)(2)(ii) to read as follows:

§ 230.5 Subsequent disclosures.

(a) * * *

(2) * * *

(ii) *Check printing fees.* Changes in fees assessed for check printing.

* * * * *

5. Section 230.8 is amended by revising paragraph (e) to read as follows:

§ 230.8 Advertising.

* * * * *

(e) *Exemption for certain advertisements.*—(1) *Certain media.* 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:

(i) Broadcast or electronic media, such as television or radio;

(ii) Outdoor media, such as billboards

or

(iii) Telephone response machines.

(2) Indoor signs. (i) Signs inside the premises of a depository institution (or the premises of a deposit broker) are not subject to paragraphs (b), (c), (d), or

(e)(1) of this section unless they face outside the premises and can reasonably be viewed by a consumer only from outside the premises.

(ii) If a sign exempt by paragraph (e)(2) of this section states a rate of return, it shall:

(A) State the rate as an "annual percentage yield," using that term or the term "APY." The sign shall not state any other rate, except that the interest rate may be stated in conjunction with the annual percentage yield to which it relates.

(B) Contain a statement advising consumers to contact an employee for

further information about applicable fees and terms.

6. In Appendix A to Part 230, Part II is amended in the first paragraph following the introductory text by revising the text preceding the formula and adding a heading for a new section A immediately preceding the formula, and by adding a new section B at the end of the appendix to read as follows:

Appendix A to Part 230—Annual Percentage Yield Calculation

* * * * *

Part II. Annual percentage yield earned for periodic statements

* * * * *

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

A. General formula.

* * * * *

B. Special formula for use where periodic statement is sent more often than the period for which interest is compounded.

Institutions that use the daily balance method to accrue interest and that issue periodic statements more often than the period for which interest is compounded shall use the following special formula:

APY Earned=

$$100 \left\{ \left[1 + \frac{(\text{Interest earned}/\text{Balance})}{\text{Days in period}} (\text{Compounding}) \right]^{(365/\text{Compounding})} - 1 \right\}$$

The following definition applies for use in this formula (all other terms are defined under Part II):

"Compounding" is the number of days in each compounding period.

Assume an institution calculates interest for the statement period using the daily balance method, pays a 5.00% interest rate, compounded annually, and provides periodic statements for each monthly cycle.

The account has a daily balance of \$1,000 for a 30-day statement period. The interest earned is \$4.11 for the period, and the annual percentage yield earned (using the special formula above) is 5.00%:

$$\text{APY Earned} = 100 \left\{ \left[1 + \frac{(4.11/1,000)}{30} (365) \right]^{(365/365)} - 1 \right\}$$

APY Earned=5.00%

By order of the Board of Governors of the Federal Reserve System, March 12, 1993.

Jennifer J. Johnson,
Associate Secretary of the Board.

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