

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.

(iii) *Required interest payouts.* For noncompounding time accounts with a stated maturity greater than one year that do not compound interest on an annual or more frequent basis, that require interest payouts at least annually, and that disclose an APY determined in accordance with section E of Appendix A of this part, a statement that interest cannot remain on deposit and that payout of interest is mandatory.

(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—*(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.

(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.

[57 FR 43376, Sept. 21, 1992, as amended at 58 FR 15081, Mar. 19, 1993; Reg. DD, 60 FR 5130, Jan. 26, 1995; Reg. DD, 63 FR 40638, July 30, 1998; Reg. DD, 63 FR 52107, Sept. 29, 1998]

§ 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 part. 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 part; Section 271 is repealed effective September 30, 2001.

(c) *Record retention.* A depository institution shall retain evidence of compliance with this part 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 this part 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.

[57 FR 43376, Sept. 21, 1992, as amended by Reg. DD, 63 FR 52107, Sept. 29, 1998]

APPENDIX A TO PART 230—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 §§230.4 and 230.5 and for advertising under §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, and to certain time accounts

¹The 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.

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

with a stated maturity greater than one year.

A. General Rules

Except as provided in Part I.E. of this appendix, 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):

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

"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:

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

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%:

$$APY=100 \left[\left(\frac{1 + 61.68/1,000}{365/365} \right)^{365} - 1 \right]$$

³This 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.

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):

$$APY=100(61.68/1,000)$$

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%:

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

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 6-month certificate of deposit on which it pays a 5% interest rate, compounded daily, for the first three months (which contain 91 days), and a 5.5% 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%:

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

APY=5.39%

(2) If an institution offers a \$1,000 two-year certificate of deposit on which it pays a 6% interest rate, compounded daily, for the first year, and a 6.5% 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%:

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

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 remain-

der 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% 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%, the total interest for a 365-day year for a \$1,000 deposit is \$56.52 (based on 91 days at 7% followed by 274 days at 5%). Using the simple formula, the annual percentage yield is 5.65%:

$$APY=100(56.52/1,000)$$

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 (percent)	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% 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

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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%:

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

Using the simple formula:

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

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

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

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%:

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

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% on \$2,500 and 5.50% 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%:

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

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% interest rate plus interest on \$.01 at 5.50%. For the low end of the second tier, therefore, the annual percentage yield is 5.39%, 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% interest rate plus interest on the low end of the second tier, the annual percentage yield, using the simple formula, is 5.61%:

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

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

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% interest rate, plus interest on \$12,500 at 5.50% interest rate, plus interest on \$.01 at 5.75% interest rate. For the low end of the third tier, therefore, the annual percentage yield (using the simple formula) is 5.61%:

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

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% interest rate, plus interest on \$12,500 at 5.50% interest rate, plus interest on \$85,000 at 5.75% interest rate. For the high end of the third tier, therefore, the annual percentage yield, using the simple formula, is 5.87%.

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

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

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%:

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

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

E. Time Accounts with a Stated Maturity Greater than One Year that Pay Interest At Least Annually

1. For time accounts with a stated maturity greater than one year that do not compound interest on an annual or more frequent basis, and that require the consumer to withdraw interest at least annually, the

annual percentage yield may be disclosed as equal to the interest rate.

Example

(1) If an institution offers a \$1,000 two-year certificate of deposit that does not compound and that pays out interest semi-annually by check or transfer at a 6.00% interest rate, the annual percentage yield may be disclosed as 6.00%.

(2) For time accounts covered by this paragraph that are also stepped-rate accounts, the annual percentage yield may be disclosed as equal to the composite interest rate.

Example

(1) If an institution offers a \$1,000 three-year certificate of deposit that does not compound and that pays out interest annually by check or transfer at a 5.00% interest rate for the first year, 6.00% interest rate for the second year, and 7.00% interest rate for the third year, the institution may compute the composite interest rate and APY as follows:

- (a) Multiply each interest rate by the number of days it will be in effect;
- (b) Add these figures together; and
- (c) Divide by the total number of days in the term.

(2) Applied to the example, the products of the interest rates and days the rates are in effect are (5.00%×365 days) 1825, (6.00%×365 days) 2190, and (7.00%×365 days) 2555, respectively. The sum of these products, 6570, is divided by 1095, the total number of days in the term. The composite interest rate and APY are both 6.00%.

Part II. Annual Percentage Yield Earned for Periodic Statements

The annual percentage yield earned for periodic statements under §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 §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 formulas ("APY Earned" is used for convenience in the formulas):

A. General formula.

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

"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 of 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%:

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

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

(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%:

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

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

(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%:

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

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

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:

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

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 bal-

ance 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%

[57 FR 43376, Sept. 21, 1992, as amended at 57 FR 46480, Oct. 9, 1992; 58 FR 15082, Mar. 19, 1993; 60 FR 5130, Jan. 26, 1995; Reg. DD, 63 FR 40638, July 30, 1998]

APPENDIX B TO PART 230—MODEL CLAUSES AND SAMPLE FORMS

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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

(i) 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/week[s]/month[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

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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 noninterest-bearing] account.

(v) Required interest distribution.

This account requires the distribution of interest and does not allow interest to remain in the 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 interest 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 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.

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 being 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:

<u>Term</u>	<u>Early Withdrawal Penalty</u>
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 the 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**

<u>ACCOUNT TYPE</u>	<u>MINIMUM DEPOSIT TO OPEN ACCOUNT</u>	<u>MINIMUM BALANCE* TO OBTAIN ANNUAL PERCENTAGE YIELD</u>	<u>INTEREST RATE</u>	<u>ANNUAL PERCENTAGE YIELD</u>
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.

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.

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-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**

[57 FR 43376, Sept. 21, 1992, as amended at 57 FR 46480, Oct. 9, 1992; Reg. DD, 60 FR 5131, Jan. 26, 1995]

APPENDIX C TO PART 230—EFFECT ON STATE LAWS*(a) Inconsistent Requirements*

State law requirements that are inconsistent with the requirements of the act and this part 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 fed-

eral 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 TO PART 230—ISSUANCE OF STAFF INTERPRETATIONS

Officials in the Board's Division of Consumer and Community Affairs are authorized to issue official staff interpretations of this part. 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 this part, which will be amended periodically. No staff interpretations will be issued approving depository institutions' forms, statements, or calculation tools or methods.

SUPPLEMENT I TO PART 230—OFFICIAL STAFF INTERPRETATIONS

INTRODUCTION

1. *Official status.* This commentary is the means by which the Division of Consumer and Community Affairs of the Federal Reserve Board issues official staff interpretations of Regulation DD. Good faith compliance with this commentary affords protection from liability under section 271(f) of the Truth in Savings Act.

Section 230.1 Authority, purpose, coverage, and effect on state laws

(c) *Coverage*

1. *Foreign applicability.* Regulation DD applies to all depository institutions, except credit unions, that offer deposit accounts to residents (including resident aliens) of any state as defined in §230.2(r). Accounts held in

an institution located in a state are covered, even if funds are transferred periodically to a location outside the United States. Accounts held in an institution located outside the United States are not covered, even if held by a U.S. resident.

2. *Persons who advertise accounts.* Persons who advertise accounts are subject to the advertising rules. For example, if a deposit broker places an advertisement offering consumers an interest in an account at a depository institution, the advertising rules apply to the advertisement, whether the account is to be held by the broker or directly by the consumer.

Section 230.2 Definitions

(a) *Account*

1. *Covered accounts.* Examples of accounts subject to the regulation are:

- i. Interest-bearing and noninterest-bearing accounts
- ii. Deposit accounts opened as a condition of obtaining a credit card
- iii. Accounts denominated in a foreign currency
- iv. Individual retirement accounts (IRAs) and simplified employee pension (SEP) accounts
- v. Payable on death (POD) or "Totten trust" accounts

2. *Other accounts.* Examples of accounts not subject to the regulation are:

- i. Mortgage escrow accounts for collecting taxes and property insurance premiums
- ii. Accounts established to make periodic disbursements on construction loans
- iii. Trust accounts opened by a trustee pursuant to a formal written trust agreement (not merely declarations of trust on a signature card such as a "Totten trust," or an IRA and SEP account)
- iv. Accounts opened by an executor in the name of a decedent's estate

3. *Other investments.* The term "account" does not apply to all products of a depository institution. Examples of products not covered are:

- i. Government securities
- ii. Mutual funds
- iii. Annuities
- iv. Securities or obligations of a depository institution
- v. Contractual arrangements such as repurchase agreements, interest rate swaps, and bankers acceptances

(b) *Advertisement*

1. *Covered messages.* Advertisements include commercial messages in visual, oral, or print media that invite, offer, or otherwise announce generally to prospective customers the availability of consumer accounts—such as:

- i. Telephone solicitations
- ii. Messages on automated teller machine (ATM) screens

- iii. Messages on a computer screen in an institution's lobby (including any printout) other than a screen viewed solely by the institution's employee
- iv. Messages in a newspaper, magazine, or promotional flyer or on radio
- v. Messages that are provided along with information about the consumer's existing account and that promote another account at the institution

2. *Other messages.* Examples of messages that are not advertisements are:

- i. Rate sheets in a newspaper, periodical, or trade journal (unless the depository institution, or a deposit broker offering accounts at the institution, pays a fee for or otherwise controls publication)
- ii. In-person discussions with consumers about the terms for a specific account
- iii. Information given to consumers about existing accounts, such as current rates recorded on a voice response machine or notices for automatically renewable time accounts sent before renewal

(f) *Bonus*

1. *Examples.* Bonuses include items of value, other than interest, offered as incentives to consumers, such as an offer to pay the final installment deposit for a holiday club account. Items that are not a bonus include discount coupons for goods or services at restaurants or stores.

2. *De minimis rule.* Items with a *de minimis* value of \$10 or less are not bonuses. Institutions may rely on the valuation standard used by the Internal Revenue Service to determine if the value of the item is *de minimis*. Examples of items of *de minimis* value are:

- i. Disability insurance premiums valued at an amount of \$10 or less per year
- ii. Coffee mugs, T-shirts or other merchandise with a market value of \$10 or less

3. *Aggregation.* In determining if an item valued at \$10 or less is a bonus, institutions must aggregate per account per calendar year items that may be given to consumers. In making this determination, institutions aggregate per account only the market value of items that may be given for a specific promotion. To illustrate, assume an institution offers in January to give consumers an item valued at \$7 for each calendar quarter during the year that the average account balance in a negotiable order of withdrawal (NOW) account exceeds \$10,000. The bonus rules are triggered, since consumers are eligible under the promotion to receive up to \$28 during the year. However, the bonus rules are not triggered if an item valued at \$7 is offered to consumers opening a NOW account during the month of January, even though in November the institution introduces a new promotion that includes, for example, an offer to existing NOW account holders for an item valued at \$8 for maintaining an average balance of \$5,000 for the month.

4. *Waiver or reduction of a fee or absorption of expenses.* Bonuses do not include value that consumers receive through the waiver or reduction of fees (even if the fees waived exceed \$10) for banking-related services such as the following:

- i. A safe deposit box rental fee for consumers who open a new account
- ii. Fees for travelers checks for account holders
- iii. Discounts on interest rates charged for loans at the institution

(h) *Consumer*

1. *Professional capacity.* Examples of accounts held by a natural person in a professional capacity for another are attorney-client trust accounts and landlord-tenant security accounts.

2. *Other accounts.* Accounts not held in a professional capacity include accounts held by an individual for a child under the Uniform Gifts to Minors Act.

3. *Sole proprietors.* Accounts held by individuals as sole proprietors are not covered.

4. *Retirement plans.* IRAs and SEP accounts are consumer accounts to the extent that funds are invested in covered accounts. But Keogh accounts are not subject to the regulation.

(j) *Depository institution and institution*

1. *Foreign institutions.* Branches of foreign institutions located in the United States are subject to the regulation if they offer deposit accounts to consumers. Edge Act and Agreement corporations, and agencies of foreign institutions, are not depository institutions for purposes of this regulation.

(k) *Deposit broker*

1. *General.* A deposit broker is a person who is in the business of placing or facilitating the placement of deposits in an institution, as defined by the Federal Deposit Insurance Act (12 U.S.C. 29(g)).

(n) *Interest*

1. *Relation to Regulation Q.* While bonuses are not interest for purposes of this regulation, other regulations may treat them as the equivalent of interest. For example, Regulation Q identifies payments of cash or merchandise that violate the prohibition against paying interest on demand accounts. (See 12 CFR §217.2(d).)

(p) *Passbook savings account*

1. *Relation to Regulation E.* Passbook savings accounts include accounts accessed by preauthorized electronic fund transfers to the account (as defined in 12 CFR §205.2(j)), such as an account that receives direct deposit of social security payments. Accounts permitting access by other electronic means are not "passbook saving accounts" and must comply with the requirements of §230.6 if statements are sent four or more times a year.

(q) *Periodic statement*

1. *Examples.* Periodic statements do not include:

- i. Additional statements provided solely upon request
- ii. Information provided by computer through home banking services
- iii. General service information such as a quarterly newsletter or other correspondence describing available services and products

(t) *Tiered-rate account*

1. *Time accounts.* Time accounts paying different rates based solely on the amount of the initial deposit are not tiered-rate accounts.

2. *Minimum balance requirements.* A requirement to maintain a minimum balance to earn interest does not make an account a tiered-rate account.

(u) *Time account*

1. *Club accounts.* Although club accounts typically have a maturity date, they are not time accounts unless they also require a penalty of at least seven days' interest for withdrawals during the first six days after the account is opened.

2. *Relation to Regulation D.* Regulation D permits in limited circumstances the withdrawal of funds without penalty during the first six days after a "time deposit" is opened. (See 12 CFR §204.2(c)(1)(i).) But the fact that a consumer makes a withdrawal as permitted by Regulation D does not disqualify the account from being a time account for purposes of this regulation.

(v) *Variable-rate account*

1. *General.* A certificate of deposit permitting one or more rate adjustments prior to maturity at the consumer's option is a variable-rate account.

Section 230.3 General disclosure requirements

(a) *Form*

1. *Design requirements.* Disclosures must be presented in a format that allows consumers to readily understand the terms of their account. Institutions are not required to use a particular type size or typeface, nor are institutions required to state any term more conspicuously than any other term. Disclosures may be made:

- i. In any order
- ii. In combination with other disclosures or account terms
- iii. In combination with disclosures for other types of accounts, as long as it is clear to consumers which disclosures apply to their account
- iv. On more than one page and on the front and reverse sides
- v. By using inserts to a document or filling in blanks
- vi. On more than one document, as long as the documents are provided at the same time

2. *Consistent terminology.* Institutions must use consistent terminology to describe terms or features required to be disclosed. For ex-

ample, if an institution describes a monthly fee (regardless of account activity) as a "monthly service fee" in account-opening disclosures, the periodic statement and change-in-term notices must use the same terminology so that consumers can readily identify the fee.

(b) *General*

1. *Specificity of legal obligation.* Institutions may refer to the calendar month or to roughly equivalent intervals during a calendar year as a "month."

(c) *Relation to Regulation E*

1. *General rule.* Compliance with Regulation E (12 CFR part 205) is deemed to satisfy the disclosure requirements of this regulation, such as when:

- i. An institution changes a term that triggers a notice under Regulation E, and uses the timing and disclosure rules of Regulation E for sending change-in-term notices
- ii. Consumers add an ATM access feature to an account, and the institution provides disclosures pursuant to Regulation E, including disclosure of fees (See 12 CFR §205.7.)
- iii. An institution complying with the timing rules of Regulation E discloses at the same time fees for electronic services (such as for balance inquiry fees at ATMs) required to be disclosed by this regulation but not by Regulation E
- iv. An institution relies on Regulation E's rules regarding disclosure of limitations on the frequency and amount of electronic fund transfers, including security-related exceptions. But any limitations on "intra-institutional transfers" to or from the consumer's other accounts during a given time period must be disclosed, even though intra-institutional transfers are exempt from Regulation E.

(e) *Oral response to inquiries*

1. *Application of rule.* Institutions are not required to provide rate information orally.

2. *Relation to advertising.* The advertising rules do not cover an oral response to a question about rates.

3. *Existing accounts.* This paragraph does not apply to oral responses about rate information for existing accounts. For example, if a consumer holding a one-year certificate of deposit (CD) requests interest rate information about the CD during the term, the institution need not disclose the annual percentage yield.

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

(f) (1) *Rounding*

1. *Permissible rounding.* Examples of permissible rounding are an annual percentage yield calculated to be 5.644%, rounded down and disclosed as 5.64%; 5.645% rounded up and disclosed as 5.65%.

(f) (2) *Accuracy*

1. *Annual percentage yield and annual percentage yield earned.* The tolerance for annual percentage yield and annual percentage yield earned calculations is designed to accommodate inadvertent errors. Institutions may not purposely incorporate the tolerance into their calculation of yields.

Section 230.4 Account disclosures

(a) *Delivery of account disclosures*

(a)(1) *Account opening*

1. *New accounts.* New account disclosures must be provided when:

- i. A time account that does not automatically rollover is renewed by a consumer
- ii. A consumer changes a term for a renewable time account (see § 230.5(b)-5 regarding disclosure alternatives)
- iii. An institution transfers funds from an account to open a new account not at the consumer's request, unless the institution previously gave account disclosures and any change-in-term notices for the new account
- iv. An institution accepts a deposit from a consumer to an account that the institution had deemed closed for the purpose of treating accrued but uncredited interest as forfeited interest (see § 230.7(b)-3)

2. *Acquired accounts.* New account disclosures need not be given when an institution acquires an account through an acquisition of or merger with another institution (but see § 230.5(a) regarding advance notice requirements if terms are changed).

(a)(2) *Requests*

(a)(2)(i)

1. *Inquiries versus requests.* A response to an oral inquiry (by telephone or in person) about rates and yields or fees does not trigger the duty to provide account disclosures. But when consumers ask for written information about an account (whether by telephone, in person, or by other means), the institution must provide disclosures unless the account is no longer offered to the public.

2. *General requests.* When responding to a consumer's general request for disclosures about a type of account (a NOW account, for example), an institution that offers several variations may provide disclosures for any one of them.

3. *Timing for response.* Ten business days is a reasonable time for responding to requests for account information that consumers do not make in person.

(a)(2)(ii)(A)

1. *Recent rates.* Institutions comply with this paragraph if they disclose an interest rate and annual percentage yield accurate within the seven calendar days preceding the date they send the disclosures.

(a)(2)(ii)(B)

1. *Term.* Describing the maturity of a time account as "1 year" or "6 months," for example, illustrates a statement of the matu-

rity of a time account as a term rather than a date ("January 10, 1995").

(b) *Content of account disclosures*

(b)(1) *Rate information*

(b)(1)(i) *Annual percentage yield and interest rate*

1. *Rate disclosures.* In addition to the interest rate and annual percentage yield, institutions may disclose a periodic rate corresponding to the interest rate. No other rate or yield (such as "tax effective yield") is permitted. If the annual percentage yield is the same as the interest rate, institutions may disclose a single figure but must use both terms.

2. *Fixed-rate accounts.* For fixed-rate time accounts paying the opening rate until maturity, institutions may disclose the period of time the interest rate will be in effect by stating the maturity date. (See Appendix B, B-7—Sample Form.) For other fixed-rate accounts, institutions may use a date ("This rate will be in effect through May 4, 1995") or a period ("This rate will be in effect for at least 30 days").

3. *Tiered-rate accounts.* Each interest rate, along with the corresponding annual percentage yield for each specified balance level (or range of annual percentage yields, if appropriate), must be disclosed for tiered-rate accounts. (See Appendix A, Part I, Paragraph D.)

4. *Stepped-rate accounts.* A single composite annual percentage yield must be disclosed for stepped-rate accounts. (See Appendix A, Part I, Paragraph B.) The interest rates and the period of time each will be in effect also must be provided. When the initial rate offered for a specified time on a variable-rate account is higher or lower than the rate that would otherwise be paid on the account, the calculation of the annual percentage yield must be made as if for a stepped-rate account. (See Appendix A, Part I, Paragraph C.)

(b)(1)(ii) *Variable rates*

(b)(1)(ii)(B)

1. *Determining interest rates.* To disclose how the interest rate is determined, institutions must:

- i. Identify the index and specific margin, if the interest rate is tied to an index
- ii. State that rate changes are within the institution's discretion, if the institution does not tie changes to an index

(b)(1)(ii)(C)

1. *Frequency of rate changes.* An institution reserving the right to change rates at its discretion must state the fact that rates may change at any time.

(b)(1)(ii)(D)

1. *Limitations.* A floor or ceiling on rates or on the amount the rate may decrease or increase during any time period must be disclosed. Institutions need not disclose the absence of limitations on rate changes.

(b)(2) *Compounding and crediting*

(b)(2)(ii) Effect of closing an account

1. *Deeming an account closed.* An institution may, subject to state or other law, provide in its deposit contracts the actions by consumers that will be treated as closing the account and that will result in the forfeiture of accrued but uncredited interest. An example is the withdrawal of all funds from the account prior to the date that interest is credited.

*(b)(3) Balance information**(b)(3)(ii) Balance computation method*

1. *Methods and periods.* Institutions may use different methods or periods to calculate minimum balances for purposes of imposing a fee (the daily balance for a calendar month, for example) and accruing interest (the average daily balance for a statement period, for example). Each method and corresponding period must be disclosed.

(b)(3)(iii) When interest begins to accrue

1. *Additional information.* Institutions may disclose additional information such as the time of day after which deposits are treated as having been received the following business day, and may use additional descriptive terms such as "ledger" or "collected" balances to disclose when interest begins to accrue.

(b)(4) Fees

1. *Covered fees.* The following are types of fees that must be disclosed:

- i. Maintenance fees, such as monthly service fees
- ii. Fees to open or to close an account
- iii. Fees related to deposits or withdrawals, such as fees for use of the institution's ATMs
- iv. Fees for special services, such as stop-payment fees, fees for balance inquiries or verification of deposits, fees associated with checks returned unpaid, and fees for regularly sending to consumers checks that otherwise would be held by the institution

2. *Other fees.* Institutions need not disclose fees such as the following:

- i. Fees for services offered to account and nonaccount holders alike, such as travelers checks and wire transfers (even if different amounts are charged to account and nonaccount holders)
- ii. Incidental fees, such as fees associated with state escheat laws, garnishment or attorneys fees, and fees for photocopying

3. *Amount of fees.* Institutions must state the amount and conditions under which a fee may be imposed. Naming and describing the fee (such as "\$4.00 monthly service fee") will typically satisfy these requirements.

4. *Tied-accounts.* Institutions must state if fees that may be assessed against an account are tied to other accounts at the institution. For example, if an institution ties the fees payable on a NOW account to balances held in the NOW account and a savings account,

the NOW account disclosures must state that fact and explain how the fee is determined.

(b)(5) Transaction limitations

1. *General rule.* Examples of limitations on the number or dollar amount of deposits or withdrawals that institutions must disclose are:

- i. Limits on the number of checks that may be written on an account within a given time period
- ii. Limits on withdrawals or deposits during the term of a time account
- iii. Limitations required by Regulation D on the number of withdrawals permitted from money market deposit accounts by check to third parties each month. Institutions need not disclose reservations of right to require notices for withdrawals from accounts required by federal or state law.

*(b)(6) Features of time accounts**(b)(6)(i) Time requirements*

1. *"Callable" time accounts.* In addition to the maturity date, an institution must state the date or the circumstances under which it may redeem a time account at the institution's option (a "callable" time account).

(b)(6)(ii) Early withdrawal penalties

1. *General.* The term "penalty" may but need not be used to describe the loss of interest that consumers may incur for early withdrawal of funds from time accounts.

2. *Examples.* Examples of early withdrawal penalties are:

- i. Monetary penalties, such as "\$10.00" or "seven days' interest plus accrued but uncredited interest"
- ii. Adverse changes to terms such as a lowering of the interest rate, annual percentage yield, or compounding frequency for funds remaining on deposit
- iii. Reclamation of bonuses

3. *Relation to rules for IRAs or similar plans.* Penalties imposed by the Internal Revenue Code for certain withdrawals from IRAs or similar pension or savings plans are not early withdrawal penalties for purposes of this regulation.

4. *Disclosing penalties.* Penalties may be stated in months, whether institutions assess the penalty using the actual number of days during the period or using another method such as a number of days that occurs in any actual sequence of the total calendar months involved. For example, stating "one month's interest" is permissible, whether the institution assesses 30 days' interest during the month of April, or selects a time period between 28 and 31 days for calculating the interest for all early withdrawals regardless of when the penalty is assessed.

(b)(6)(iv) Renewal policies

1. *Rollover time accounts.* Institutions offering a grace period on time accounts that automatically renew need not state whether

interest will be paid if the funds are withdrawn during the grace period.

2. *Nonrollover time accounts.* Institutions paying interest on funds following the maturity of time accounts that do not renew automatically need not state the rate (or annual percentage yield) that may be paid. (See Appendix B, Model Clause B-1(h)(iv)(2).)

Section 230.5 Subsequent disclosures

(a) *Change in terms*

(a)(1) *Advance notice required*

1. *Form of notice.* Institutions may provide a change-in-term notice on or with a periodic statement or in another mailing. If an institution provides notice through revised account disclosures, the changed term must be highlighted in some manner. For example, institutions may note that a particular fee has been changed (also specifying the new amount) or use an accompanying letter that refers to the changed term.

2. *Effective date.* An example of language for disclosing the effective date of a change is “As of November 21, 1994.”

3. *Terms that change upon the occurrence of an event.* An institution offering terms that will automatically change upon the occurrence of a stated event need not send an advance notice of the change provided the institution fully describes the conditions of the change in the account opening disclosures (and sends any change-in-term notices regardless of whether the changed term affects that consumer’s account at that time).

4. *Examples.* Examples of changes not requiring an advance change-in-terms notice are:

- i. The termination of employment for consumers for whom account maintenance or activity fees were waived during their employment by the depository institution
- ii. The expiration of one year in a promotion described in the account opening disclosures to “waive \$4.00 monthly service charges for one year”

(a)(2) *No notice required*

(a)(2)(ii) *Check printing fees*

1. *Increase in fees.* A notice is not required for an increase in fees for printing checks (or deposit and withdrawal slips) even if the institution adds some amount to the price charged by the vendor.

(b) *Notice before maturity for time accounts longer than one month that renew automatically*

1. *Maturity dates on nonbusiness days.* In determining the term of a time account, institutions may disregard the fact that the term will be extended beyond the disclosed number of days because the disclosed maturity falls on a nonbusiness day. For example, a holiday or weekend may cause a “one-year” time account to extend beyond 365 days (or 366, in a leap year) or a “one-month” time account to extend beyond 31 days.

2. *Disclosing when rates will be determined.* Ways to disclose when the annual percentage yield will be available include the use of:

- i. A specific date, such as “October 28”
- ii. A date that is easily determinable, such as “the Tuesday before the maturity date stated on this notice” or “as of the maturity date stated on this notice”

3. *Alternative timing rule.* Under the alternative timing rule, an institution offering a 10-day grace period would have to provide the disclosures at least 10 days prior to the scheduled maturity date.

4. *Club accounts.* If consumers have agreed to the transfer of payments from another account to a club time account for the next club period, the institution must comply with the requirements for automatically renewable time accounts—even though consumers may withdraw funds from the club account at the end of the current club period.

5. *Renewal of a time account.* In the case of a change in terms that becomes effective if a rollover time account is subsequently renewed:

- i. If the change is initiated by the institution, the disclosure requirements of this paragraph apply. (Paragraph 230.5(a) applies if the change becomes effective prior to the maturity of the existing time account.)
- ii. If the change is initiated by the consumer, the account opening disclosure requirements of §230.4(b) apply. (If the notice required by this paragraph has been provided, institutions may give new account disclosures or disclosures highlighting only the new term.)

6. *Example.* If a consumer receives a prematurity notice on a one-year time account and requests a rollover to a six-month account, the institution must provide either account opening disclosures including the new maturity date or, if all other terms previously disclosed in the prematurity notice remain the same, only the new maturity date.

(b)(1) *Maturities of longer than one year*

1. *Highlighting changed terms.* Institutions need not highlight terms that changed since the last account disclosures were provided.

(c) *Notice for time accounts one month or less that renew automatically*

(d) *Notice before maturity for time accounts longer than one year that do not renew automatically*

1. *Subsequent account.* When funds are transferred following maturity of a nonrollover time account, institutions need not provide account disclosures unless a new account is established.

Section 230.6 Periodic statement disclosures

(a) *General rule*

1. *General.* Institutions are not required to provide periodic statements. If they do provide statements, disclosures need only be furnished to the extent applicable. For example, if no interest is earned for a statement period, institutions need not state that fact. Or, institutions may disclose "\$0" interest earned and "0%" annual percentage yield earned.

2. *Regulation E interim statements.* When an institution provides regular quarterly statements, and in addition provides a monthly interim statement to comply with Regulation E, the interim statement need not comply with this section unless it states interest or rate information. (See 12 CFR §205.9(b).)

3. *Combined statements.* Institutions may provide information about an account (such as an MMDA) on the periodic statement for another account (such as a NOW account) without triggering the disclosures required by this section, as long as:

- i. The information is limited to the account number, the type of account, or balance information, and
- ii. The institution also provides a periodic statement complying with this section for each account.

4. *Other information.* Additional information that may be given on or with a periodic statement includes:

- i. Interest rates and corresponding periodic rates applied to balances during the statement period
- ii. The dollar amount of interest earned year-to-date
- iii. Bonuses paid (or any de minimis consideration of \$10 or less)
- iv. Fees for products such as safe deposit boxes

(a)(1) Annual percentage yield earned

1. *Ledger and collected balances.* Institutions that accrue interest using the collected balance method may use either the ledger or the collected balance in determining the annual percentage yield earned.

(a)(2) Amount of interest

1. *Accrued interest.* Institutions must state the amount of interest that accrued during the statement period, even if it was not credited.

2. *Terminology.* In disclosing interest earned for the period, institutions must use the term "interest" or terminology such as:

- i. "Interest paid," to describe interest that has been credited
- ii. "Interest accrued" or "interest earned," to indicate that interest is not yet credited

3. *Closed accounts.* If consumers close an account between crediting periods and forfeits accrued interest, the institution may not show any figures for interest earned or annual percentage yield earned for the period (other than zero, at the institution's option).

(a)(3) Fees imposed

1. *General.* Periodic statements must state fees disclosed under §230.4(b) that were debited to the account during the statement period, even if assessed for an earlier period.

2. *Itemizing fees by type.* In itemizing fees imposed more than once in the period, institutions may group fees if they are the same type. But the description must make clear that the dollar figure represents more than a single fee, for example, "total fees for checks written this period." Examples of fees that may not be grouped together are:

- i. Monthly maintenance and excess activity fees
- ii. "Transfer" fees, if different dollar amounts are imposed—such as \$.50 for deposits and \$1.00 for withdrawals
- iii. Fees for electronic fund transfers and fees for other services, such as balance inquiry or maintenance fees

3. *Identifying fees.* Statement details must enable consumers to identify the specific fee. For example:

- i. Institutions may use a code to identify a particular fee if the code is explained on the periodic statement or in documents accompanying the statement.
- ii. Institutions using debit slips may disclose the date the fee was debited on the periodic statement and show the amount and type of fee on the dated debit slip.

4. *Relation to Regulation E.* Disclosure of fees in compliance with Regulation E complies with this section for fees related to electronic fund transfers (for example, totaling all electronic funds transfer fees in a single figure).

(a)(4) Length of period

1. *General.* Institutions providing the beginning and ending dates of the period must make clear whether both dates are included in the period.

2. *Opening or closing an account mid-cycle.* If an account is opened or closed during the period for which a statement is sent, institutions must calculate the annual percentage yield earned based on account balances for each day the account was open.

(b) Special rule for average daily balance method

1. *Monthly statements and quarterly compounding.* This rule applies, for example, when an institution calculates interest on a quarterly average daily balance and sends monthly statements. In this case, the first two monthly statements would omit annual percentage yield earned and interest earned figures; the third monthly statement would reflect the interest earned and the annual percentage yield earned for the entire quarter.

2. *Length of the period.* Institutions must disclose the length of both the interest calculation period and the statement period. For example, a statement could disclose a statement period of April 16 through May 15

and further state that “the interest earned and the annual percentage yield earned are based on your average daily balance for the period April 1 through April 30.”

3. *Quarterly statements and monthly compounding.* Institutions that use the average daily balance method to calculate interest on a monthly basis and that send statements on a quarterly basis may disclose a single interest (and annual percentage yield earned) figure. Alternatively, an institution may disclose three interest and three annual percentage yield earned figures, one for each month in the quarter, as long as the institution states the number of days (or beginning and ending dates) in the interest period if different from the statement period.

Section 230.7 Payment of interest

(a)(1) Permissible methods

1. *Prohibited calculation methods.* Calculation methods that do not comply with the requirement to pay interest on the full amount of principal in the account each day include:

- i. Paying interest on the balance in the account at the end of the period (the “ending balance” method)
- ii. Paying interest for the period based on the lowest balance in the account for any day in that period (the “low balance” method)
- iii. Paying interest on a percentage of the balance, excluding the amount set aside for reserve requirements (the “investable balance” method)

2. *Use of 365-day basis.* Institutions may apply a daily periodic rate greater than $1/365$ of the interest rate—such as $1/360$ of the interest rate—as long as it is applied 365 days a year.

3. *Periodic interest payments.* An institution can pay interest each day on the account and still make uniform interest payments. For example, for a one-year certificate of deposit an institution could make monthly interest payments equal to $1/12$ of the amount of interest that will be earned for a 365-day period (or 11 uniform monthly payments—each equal to roughly $1/12$ of the total amount of interest—and one payment that accounts for the remainder of the total amount of interest earned for the period).

4. *Leap year.* Institutions may apply a daily rate of $1/366$ or $1/365$ of the interest rate for 366 days in a leap year, if the account will earn interest for February 29.

5. *Maturity of time accounts.* Institutions are not required to pay interest after time accounts mature. (See 12 CFR part 217, the Board’s Regulation Q, for limitations on duration of interest payments.) Examples include:

- i. During a grace period offered for an automatically renewable time account, if

consumers decide during that period not to renew the account

- ii. Following the maturity of nonrollover time accounts
- iii. When the maturity date falls on a holiday, and consumers must wait until the next business day to obtain the funds

6. *Dormant accounts.* Institutions must pay interest on funds in an account, even if inactivity or the infrequency of transactions would permit the institution to consider the account to be “inactive” or “dormant” (or similar status) as defined by state or other law or the account contract.

(a)(2) Determination of minimum balance to earn interest

1. *Daily balance accounts.* Institutions that require a minimum balance may choose not to pay interest for days when the balance drops below the required minimum, if they use the daily balance method to calculate interest.

2. *Average daily balance accounts.* Institutions that require a minimum balance may choose not to pay interest for the period in which the balance drops below the required minimum, if they use the average daily balance method to calculate interest.

3. *Beneficial method.* Institutions may not require that consumers maintain both a minimum daily balance and a minimum average daily balance to earn interest, such as by requiring consumers to maintain a \$500 daily balance and a prescribed average daily balance (whether higher or lower). But an institution could offer a minimum balance to earn interest that includes an additional method that is “unequivocally beneficial” to consumers such as the following: An institution using the daily balance method to calculate interest and requiring a \$500 minimum daily balance could offer to pay interest on the account for those days the minimum balance is not met as long as consumers maintain an average daily balance throughout the month of \$400.

4. *Paying on full balance.* Institutions must pay interest on the full balance in the account that meets the required minimum balance. For example, if \$300 is the minimum daily balance required to earn interest, and a consumer deposits \$500, the institution must pay the stated interest rate on the full \$500 and not just on \$200.

5. *Negative balances prohibited.* Institutions must treat a negative account balance as zero to determine:

- i. The daily or average daily balance on which interest will be paid
- ii. Whether any minimum balance to earn interest is met

6. *Club accounts.* Institutions offering club accounts (such as a “holiday” or “vacation” club) cannot impose a minimum balance requirement for interest based on the total number or dollar amount of payments required under the club plan. For example, if a

plan calls for \$10 weekly payments for 50 weeks, the institution cannot set a \$500 "minimum balance" and then pay interest only if the consumer has made all 50 payments.

7. *Minimum balances not affecting interest.* Institutions may use the daily balance, average daily balance, or any other computation method to calculate minimum balance requirements not involving the payment of interest—such as to compute minimum balances for assessing fees.

(b) *Compounding and crediting policies*

1. *General.* Institutions choosing to compound interest may compound or credit interest annually, semi-annually, quarterly, monthly, daily, continuously, or on any other basis.

2. *Withdrawals prior to crediting date.* If consumers withdraw funds (without closing the account) prior to a scheduled crediting date, institutions may delay paying the accrued interest on the withdrawn amount until the scheduled crediting date, but may not avoid paying interest.

3. *Closed accounts.* Subject to state or other law, an institution may choose not to pay accrued interest if consumers close an account prior to the date accrued interest is credited, as long as the institution has disclosed that fact.

(c) *Date interest begins to accrue*

1. *Relation to Regulation CC.* Institutions may rely on the Expedited Funds Availability Act (EFAA) and Regulation CC (12 CFR part 229) to determine, for example, when a deposit is considered made for purposes of interest accrual, or when interest need not be paid on funds because a deposited check is later returned unpaid.

2. *Ledger and collected balances.* Institutions may calculate interest by using a "ledger" or "collected" balance method, as long as the crediting requirements of the EFAA are met (12 CFR 229.14).

3. *Withdrawal of principal.* Institutions must accrue interest on funds until the funds are withdrawn from the account. For example, if a check is debited to an account on a Tuesday, the institution must accrue interest on those funds through Monday.

Section 230.8 Advertising

(a) *Misleading or inaccurate advertisements*

1. *General.* All advertisements are subject to the rule against misleading or inaccurate advertisements, even though the disclosures applicable to various media differ.

2. *Indoor signs.* An indoor sign advertising an annual percentage yield is not misleading or inaccurate when:

- i. For a tiered-rate account, it also provides the lower dollar amount of the tier corresponding to the advertised annual percentage yield

- ii. For a time account, it also provides the term required to obtain the advertised annual percentage yield

3. *Fees affecting "free" accounts.* For purposes of determining whether an account can be advertised as "free" or "no cost," maintenance and activity fees include:

- i. Any fee imposed when a minimum balance requirement is not met, or when consumers exceed a specified number of transactions
- ii. Transaction and service fees that consumers reasonably expect to be imposed on a regular basis
- iii. A flat fee, such as a monthly service fee
- iv. Fees imposed to deposit, withdraw, or transfer funds, including per-check or per-transaction charges (for example, \$.25 for each withdrawal, whether by check or in person)

4. *Other fees.* Examples of fees that are not maintenance or activity fees include:

- i. Fees not required to be disclosed under §230.4(b)(4)
- ii. Check printing fees
- iii. Balance inquiry fees
- iv. Stop-payment fees and fees associated with checks returned unpaid
- v. Fees assessed against a dormant account
- vi. Fees for ATM or electronic transfer services (such as preauthorized transfers or home banking services) not required to obtain an account

5. *Similar terms.* An advertisement may not use the term "fees waived" if a maintenance or activity fee may be imposed because it is similar to the terms "free" or "no cost."

6. *Specific account services.* Institutions may advertise a specific account service or feature as free if no fee is imposed for that service or feature. For example, institutions offering an account that is free of deposit or withdrawal fees could advertise that fact, as long as the advertisement does not mislead consumers by implying that the account is free and that no other fee (a monthly service fee, for example) may be charged.

7. *Free for limited time.* If an account (or a specific account service) is free only for a limited period of time—for example, for one year following the account opening—the account (or service) may be advertised as free if the time period is also stated.

8. *Conditions not related to deposit accounts.* Institutions may advertise accounts as "free" for consumers meeting conditions not related to deposit accounts, such as the consumer's age. For example, institutions may advertise a NOW account as "free for persons over 65 years old," even though a maintenance or activity fee is assessed on accounts held by consumers 65 or younger.

(b) *Permissible rates*

1. *Tiered-rate accounts.* An advertisement for a tiered-rate account that states an annual percentage yield must also state the annual percentage yield for each tier, along with corresponding minimum balance requirements. Any interest rates stated must appear in conjunction with the applicable annual percentage yields for each tier.

2. *Stepped-rate accounts.* An advertisement that states an interest rate for a stepped-rate account must state all the interest rates and the time period that each rate is in effect.

3. *Representative examples.* An advertisement that states an annual percentage yield for a given type of account (such as a time account for a specified term) need not state the annual percentage yield applicable to other time accounts offered by the institution or indicate that other maturity terms are available. In an advertisement stating that rates for an account may vary depending on the amount of the initial deposit or the term of a time account, institutions need not list each balance level and term offered. Instead, the advertisement may:

- i. Provide a representative example of the annual percentage yields offered, clearly described as such. For example, if an institution offers a \$25 bonus on all time accounts and the annual percentage yield will vary depending on the term selected, the institution may provide a disclosure of the annual percentage yield as follows: "For example, our 6-month certificate of deposit currently pays a 3.15% annual percentage yield."
- ii. Indicate that various rates are available, such as by stating short-term and longer-term maturities along with the applicable annual percentage yields: "We offer certificates of deposit with annual percentage yields that depend on the maturity you choose. For example, our one-month CD earns a 2.75% APY. Or, earn a 5.25% APY for a three-year CD."

(c) *When additional disclosures are required*

1. *Trigger terms.* The following are examples of information stated in advertisements that are not "trigger" terms:

- i. "One, three, and five year CDs available"
- ii. "Bonus rates available"
- iii. "1% over our current rates," so long as the rates are not determinable from the advertisement

(c)(2) *Time annual percentage yield is offered*

1. *Specified date.* If an advertisement discloses an annual percentage yield as of a specified date, that date must be recent in relation to the publication or broadcast frequency of the media used, taking into account the particular circumstances or production deadlines involved. For example, the printing date of a brochure printed once for a deposit account promotion that will be in effect for six months would be considered

"recent," even though rates change during the six-month period. Rates published in a daily newspaper or on television must reflect rates offered shortly before (or on) the date the rates are published or broadcast.

2. *Reference to date of publication.* An advertisement may refer to the annual percentage yield as being accurate as of the date of publication, if the date is on the publication itself. For instance, an advertisement in a periodical may state that a rate is "current through the date of this issue," if the periodical shows the date.

(c)(5) *Effect of fees*

1. *Scope.* This requirement applies only to maintenance or activity fees described in paragraph 8(a).

(c)(6) *Features of time accounts*

(c)(6)(i) *Time requirements*

1. *Club accounts.* If a club account has a maturity date but the term may vary depending on when the account is opened, institutions may use a phrase such as: "The maturity date of this club account is November 15; its term varies depending on when the account is opened."

(c)(6)(ii) *Early withdrawal penalties*

1. *Discretionary penalties.* Institutions imposing early withdrawal penalties on a case-by-case basis may disclose that they "may" (rather than "will") impose a penalty if such a disclosure accurately describes the account terms.

(d) *Bonuses*

1. *General reference to "bonus."* General statements such as "bonus checking" or "get a bonus when you open a checking account" do not trigger the bonus disclosures.

(e) *Exemption for certain advertisements*

(e)(1) *Certain media*

(e)(1)(iii)

1. *Tiered-rate accounts.* Solicitations for a tiered-rate account made through telephone response machines must provide the annual percentage yields and the balance requirements applicable to each tier.

(e)(2) *Indoor signs*

(e)(2)(i)

1. *General.* Indoor signs include advertisements displayed on computer screens, banners, preprinted posters, and chalk or peg boards. Any advertisement inside the premises that can be retained by a consumer (such as a brochure or a printout from a computer) is not an indoor sign.

Section 230.9 Enforcement and record retention

(c) *Record retention*

1. *Evidence of required actions.* Institutions comply with the regulation by demonstrating that they have done the following:

- i. Established and maintained procedures for paying interest and providing timely disclosures as required by the regulation, and

- ii. Retained sample disclosures for each type of account offered to consumers, such as account-opening disclosures, copies of advertisements, and change-in-term notices; and information regarding the interest rates and annual percentage yields offered.

2. *Methods of retaining evidence.* Institutions must be able to reconstruct the required disclosures or other actions. They need not keep disclosures or other business records in hard copy. Records evidencing compliance may be retained on microfilm, microfiche, or by other methods that reproduce records accurately (including computer files).

3. *Payment of interest.* Institutions must retain sufficient rate and balance information to permit the verification of interest paid on an account, including the payment of interest on the full principal balance.

APPENDIX A TO PART 230—ANNUAL PERCENTAGE YIELD CALCULATION

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

1. *Rounding for calculations.* The following are examples of permissible rounding for calculating interest and the annual percentage yield:

- i. The daily rate applied to a balance carried to five or more decimal places
- ii. The daily interest earned carried to five or more decimal places

Part II. Annual Percentage Yield Earned for Periodic Statements

1. *Balance method.* The interest figure used in the calculation of the annual percentage yield earned may be derived from the daily balance method or the average daily balance method. The balance used in the formula for the annual percentage yield earned is the sum of the balances for each day in the period divided by the number of days in the period.

2. *Negative balances prohibited.* Institutions must treat a negative account balance as zero to determine the balance on which the annual percentage yield earned is calculated. (See commentary to § 230.7(a)(2).)

A. General Formula

1. *Accrued but uncredited interest.* To calculate the annual percentage yield earned, accrued but uncredited interest:

- i. May not be included in the balance for statements issued at the same time or less frequently than the account's compounding and crediting frequency. For example, if monthly statements are sent for an account that compounds interest daily and credits interest monthly, the balance may not be increased

each day to reflect the effect of daily compounding.

- ii. Must be included in the balance for succeeding statements if a statement is issued more frequently than compounded interest is credited on an account. For example, if monthly statements are sent for an account that compounds interest daily and credits interest quarterly, the balance for the second monthly statement would include interest that had accrued for the prior month.

2. *Rounding.* The interest earned figure used to calculate the annual percentage yield earned must be rounded to two decimals and reflect the amount actually paid. For example, if the interest earned for a statement period is \$20.074 and the institution pays the consumer \$20.07, the institution must use \$20.07 (not \$20.074) to calculate the annual percentage yield earned. For accounts paying interest based on the daily balance method that compound and credit interest quarterly, and send monthly statements, the institution may, but need not, round accrued interest to two decimals for calculating the annual percentage yield earned on the first two monthly statements issued during the quarter. However, on the quarterly statement the interest earned figure must reflect the amount actually paid.

B. Special Formula for Use Where Periodic Statement is Sent More Often Than the Period for Which Interest is Compounded

1. *Statements triggered by Regulation E.* Institutions may, but need not, use this formula to calculate the annual percentage yield earned for accounts that receive quarterly statements and are subject to Regulation E's rule calling for monthly statements when an electronic fund transfer has occurred. They may do so even though no monthly statement was issued during a specific quarter. But institutions must use this formula for accounts that compound and credit interest quarterly and receive monthly statements that, while triggered by Regulation E, comply with the provisions of § 230.6.

2. *Days in compounding period.* Institutions using the special annual percentage yield earned formula must use the actual number of days in the compounding period.

APPENDIX B TO PART 230—MODEL CLAUSES AND SAMPLE FORMS

1. *Modifications.* Institutions that modify the model clauses will be deemed in compliance as long as they do not delete required information or rearrange the format in a way that affects the substance or clarity of the disclosures.

2. *Format.* Institutions may use inserts to a document (see Sample Form B-4) or fill-in blanks (see Sample Forms B-5, B-6 and B-7,

which use underlining to indicate terms that have been filled in) to show current rates, fees, or other terms.

3. *Disclosures for opening accounts.* The sample forms illustrate the information that must be provided to consumers when an account is opened, as required by §230.4(a)(1). (See §230.4(a)(2), which states the requirements for disclosing the annual percentage yield, the interest rate, and the maturity of a time account in responding to a consumer's request.)

4. *Compliance with Regulation E.* Institutions may satisfy certain requirements under Regulation DD with disclosures that meet the requirements of Regulation E. (See §230.3(c).) For disclosures covered by both this regulation and Regulation E (such as the amount of fees for ATM usage, institutions should consult appendix A to Regulation E for appropriate model clauses.

5. *Duplicate disclosures.* If a requirement such as a minimum balance applies to more than one account term (to obtain a bonus and determine the annual percentage yield, for example), institutions need not repeat the requirement for each term, as long as it is clear which terms the requirement applies to.

6. *Sample forms.* The sample forms (B-4 through B-8) serve a purpose different from the model clauses. They illustrate ways of adapting the model clauses to specific accounts. The clauses shown relate only to the specific transactions described.

B-1 Model Clauses for Account Disclosures

B-1(h) Disclosures Relating to Time Accounts

1. *Maturity.* The disclosure in Clause (h)(i) stating a specific date may be used in all cases. The statement describing a time period is appropriate only when providing disclosures in response to a consumer's request.

B-2 Model Clauses for Change in Terms

1. *General.* The second clause, describing a future decrease in the interest rate and annual percentage yield, applies to fixed-rate accounts only.

B-4 Sample Form (Multiple Accounts)

1. *Rate sheet insert.* In the rate sheet insert, the calculations of the annual percentage yield for the three-month and six-month certificates are based on 92 days and 181 days respectively. All calculations in the insert assume daily compounding.

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

1. *General.* Sample Form B-6 uses Tiering Method A (discussed in Appendix A and Clause (a)(iv)) to calculate interest. It gives a narrative description of a tiered-rate account; institutions may use different formats (for example, a chart similar to the one

in Sample Form B-4), as long as all required information for each tier is clearly presented. The form does not contain a separate disclosure of the minimum balance required to obtain the annual percentage yield; the tiered-rate disclosure provides that information.

[Reg. DD, 59 FR 40221, Aug. 8, 1994, as amended at 59 FR 52658, Oct. 19, 1994; Reg. DD, 63 FR 52107, Sept. 29, 1998]

PART 231—NETTING ELIGIBILITY FOR FINANCIAL INSTITUTION REGULATION EE

Sec.

231.1 Authority, purpose, and scope.

231.2 Definitions.

231.3 Qualification as a financial institution.

AUTHORITY: 12 U.S.C. 4402(1)(B) and 4402(9).

SOURCE: Reg. EE, 59 FR 4784, Feb. 2, 1994, unless otherwise noted.

§231.1 Authority, purpose, and scope.

(a) *Authority.* This part (Regulation EE; 12 CFR part 231) is issued by the Board of Governors of the Federal Reserve System under the authority of sections 402(1)(B) and 402(9) of the Federal Deposit Insurance Corporation Improvement Act of 1991 (12 U.S.C. 4402(1)(B) and 4402(9)).

(b) *Purpose and scope.* The purpose of the Act and this part is to enhance efficiency and reduce systemic risk in the financial markets. This part expands the Act's definition of "financial institution" to allow more financial market participants to avail themselves of the netting provisions set forth in sections 401-407 of the Act (12 U.S.C. 4401-4407). This part does not affect the status of those financial institutions specifically defined in the Act.

§231.2 Definitions.

As used in this part, unless the context requires otherwise:

(a) *Act* means the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. 102-242, 105 Stat. 2236), as amended.

(b) *Affiliate*, with respect to a person, means any other person that controls, is controlled by, or is under common control with the person.

(c) *Financial contract* means a qualified financial contract as defined in