Proposed Rules

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Part 230

[Regulation DD; Docket No. R-0869]

Truth in Savings

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: The Board is publishing for public comment proposed amendments to Regulation DD (Truth in Savings) that would amend the current formula to factor the frequency of interest payments into the calculation of the annual percentage yield (APY), along with the interest rate paid and frequency of compounding. The proposal is intended to correct an anomaly under the current formula, to avoid misranking accounts that pay out interest (without compounding). The Board is also soliciting comment on an alternative approach that would use an internal rate of return formula to calculate the APY. The Board believes an APY that reflects the timing of interest payments would enhance comparison shopping among savings products, and the proposals provide two approaches for reaching that result. Institutions would not be required to change the nature of their accounts under either approach, nor would they be required to compound interest at the same frequency as they credit interest by check or transfer when consumers may receive interest payments or leave interest in the account. Separately published elsewhere in this issue of the **Federal Register**, the Board is adopting an interim rule for certain noncompounding multi-year certificates of deposit that would permit institutions to disclose an APY equal to the contract interest rate while the public is commenting on the proposal and the Board is evaluating those comments.

DATES: Comments must be received on or before March 20, 1995.

ADDRESSES: Comments should refer to Docket No. R-0869, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street NW. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding availability of information. FOR FURTHER INFORMATION CONTACT: Jane Ahrens, Senior Attorney, Kyung Cho-Miller, or Obrea Otey Poindexter, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452–3667 or 452–2412; for questions associated with the regulatory analysis, Gregory Elliehausen, Economist, Office of the Secretary, at (202) 452-2504; for the hearing impaired only, Dorothea Thompson, Telecommunications Device

for the Deaf, at (202) 452–3544. SUPPLEMENTARY INFORMATION:

I. Background

The Truth in Savings Act (12 U.S.C. 4301 *et seq.*) requires depository institutions to provide disclosures to consumers about their deposit accounts. including an annual percentage yield (APY) on interest-bearing accounts calculated under a method prescribed by the Board. The APY is the primary uniform measurement for comparison shopping among deposit accounts. The law also contains rules about advertising, including the advertising of accounts at depository institutions offered to consumers by deposit brokers. The Board's Regulation DD (12 CFR part 230), which was adopted in September 1992 and became effective in June 1993, implements the act. (See 57 FR 43337, September 21, 1992, and 58 FR 15077, March 19, 1993.)

In adopting Regulation DD, the Board considered various approaches for calculating the APY, reflecting several competing interests and concerns. The current APY formula is simple and easy to use. It assumes that interest remains on deposit until maturity. This assumption produces an APY that has Federal Register Vol. 60, No. 17 Thursday, January 26, 1995

the effect of reflecting the time value of money in cases when interest payments are made at the same frequency as interest is compounded for funds that remain on deposit until maturity. It does not always reflect the time value of money when there are interest payments prior to maturity.

II. Proposals Affecting the APY

As deposit brokers began complying with the APY formula and the regulation's advertising rules, the Securities Industry Association (SIA) asked the Board to reconsider how the APY is calculated. The SIA objected to the fact that, for multi-year certificates of deposit (CDs) that are noncompounding but pay interest at least annually, the formula produces an APY that is less than the account interest rate. Disclosure of an APY lower than the interest rate did not, according to the SIA, always allow for meaningful comparison shopping among deposit accounts. The SIA argued that the APY should at least equal the account interest rate.

In December 1993, the Board published a proposal that factored into the APY calculation the specific time intervals for interest paid on the account-that is, the time value of money-and provided an additional internal rate of return formula (58 FR 64190, December 6, 1993). The proposal also offered an alternative limited change in the APY disclosure for multiyear noncompounding CDs; under this approach, institutions would disclose an APY equal to the account interest rate if the CDs paid interest at least annually. The proposal was withdrawn in May, based on considerations of cost and burden at that time (59 FR 24376, May 11, 1994).

Simultaneously with the withdrawal of the December proposal, in May 1994 the Board published a related proposal that addressed depository institutions' compounding and crediting practices. Under the May proposal, institutions offering accounts that paid interest by check (or transfer) or by posting interest to the account would have to post interest at least as often as they pay out interest by check. That is, for accountholders leaving the interest in the account, interest would compound on at least as frequent a basis as the interest payments made to others. For example, if an institution offered a two-