B. Stepped-Rate Accounts (Different Rates Apply in Succeeding Periods)

An additional example is proposed to illustrate the use of the new formula.

C. Variable-Rate Accounts

The proposal modifies the example in this paragraph to illustrate the use of the proposed new formula.

Appendix B to Part 230—Model Clauses and Sample Forms

The proposed amendments to model clauses and sample forms would address disclosure issues raised by factoring the timing of interest payments into the APY, under the proposed amendments using the current APY formula or an internal rate of return formula.

B–1 Model Clauses for Account Disclosures

An additional model clause (a)(v) is proposed to describe the effect of interest payments on the APY.

Clause (Ď)(i) provides model language that may be used to disclose the frequency of an institution's compounding and crediting practices. The proposal adds a new sentence providing model language to use when interest is credited by check payments or transfer to another account.

In accord with the proposed removal of paragraph 4(b)(6)(iii), the Board also proposes to remove clause (h)(iii), and to redesignate clause (h)(iv) as (h)(iii).

B-7 Sample Form

Given the proposed removal of paragraph 4(b)(6)(iii) and model clause B–1(h)(iii), the proposal would remove the last two sentences in the first paragraph of the sample form.

B-10 Sample Form

The proposed new sample form illustrates a disclosure for a CD that offers consumers the options to compound interest or to receive interest on a more frequent basis. The form discloses which interest payment option was chosen, and an APY reflecting that choice.

V. Interpretive Guidance

APY Disclosures for Accounts Offering Multiple Payment and Compounding Options

In addition to disclosing the APY before an account is opened, institutions must state an APY when responding to consumers' requests for written information about an account or to an oral inquiry about rates. (See 12 CFR 230.4(a) and 12 CFR 230.3(e).) In a consumer account advertisement,

institutions must disclose any rate stated as the APY (see 12 CFR 230.8(b)) and may also state the interest rate. Also, the regulation requires institutions to provide disclosures, including the APY, prior to maturity of automatically renewing time accounts. (12 CFR 230.5(b)) The Board solicits comment on how institutions offering accounts with multiple payment and compounding options may comply with the regulation's requirements under § 230.4(a) (requests for account disclosures), § 230.3(e) (oral inquiries), § 230.8(b) (advertisements), and § 230.5(b) (disclosures for maturing rollover CDs) in a manner that best serves consumers who are comparison shopping. For example, comment is requested on whether an institution could state, along with any compounding and crediting frequency: (1) any currently available APY, such as, "An annual percentage yield of 6.17% assumes you receive monthly interest payments," (2) the lowest and highest APYs for a given maturity, or (3) all APYs for the account.

VI. Form of Comment Letters

Comment letters should refer to Docket No. R–0869, and, when possible, should use a standard courier typeface with a type size of 10 or 12 characters per inch. This will enable the Board to convert the text in machine-readable form through electronic scanning, and will facilitate automated retrieval of comments for review. Also, if accompanied by an original document in paper form, comments may be submitted on $3\frac{1}{2}$ inch or $5\frac{1}{4}$ inch computer diskettes in any IBM-compatible DOS-based format.

VII. Regulatory Flexibility Analysis and Paperwork Reduction Act

The Board's Office of the Secretary has previously prepared regulatory analyses on proposals to factor the timing of interest payments into the APY. Copies may be obtained from Publication Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202) 452–3245.

The proposed amendments would require institutions to disclose an APY that reflects the timing of interest payments as well as compounding. Either alternative would likely require one-time software modifications and changes to account disclosures and advertisements. The Board solicits comments on the likely costs for complying with the proposed amendments, and whether the costs to implement Alternative 1 (modifying the current formula) would differ

significantly from those required to implement Alternative 2 (adding an internal rate of return formula).

In accordance with Section 3507 of the Paperwork Reduction Act of 1980 (44 U.S.C. 35; 5 CFR 1320.13), the proposed revisions will be reviewed by the Board under the authority delegated to the Board by the Office of Management and Budget after considering comments received during the public comment period.

List of Subjects in 12 CFR Part 230

Advertising, Banks, banking, Consumer protection, Federal Reserve System, Reporting and recordkeeping requirements, Truth in savings.

For the reasons set forth in the preamble, the Board proposes to amend 12 CFR part 230 as set forth below:

PART 230—TRUTH IN SAVINGS (REGULATION DD)

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

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

2. Section 230.2 would be amended by revising paragraph (c) to read as follows:

§ 230.2 Definitions.

* * * * *

- (c) Annual percentage yield means a percentage rate reflecting the total amount of interest earned or imputed on an account, based on the interest rate and the frequency of compounding, or interest distributions from the account, for a 365-day period and calculated according to the provisions in Appendix A of this part.
- 3. Section 230.3 would be amended by revising the first sentence of paragraph (e) to read as follows:

§ 230.3 General disclosure requirements. * * * * * *

- (e) Oral response to inquiries. In an oral response to a consumer's inquiry about interest rates payable on its accounts, the depository institution shall state the annual percentage yield, accompanied by the corresponding frequency of compounding or interest distribution.* * *
- 4. Section 230.4 would be amended as follows:
- a. A new paragraph (b)(1)(iii) would be added,
- b. Paragraph (b)(6)(iii) would be removed, and
- c. Paragraph (b)(6)(iv) would be redesignated as paragraph (b)(6)(iii).

The addition would read as follows: