§ 230.4 Account disclosures.

* * * (b) * * *

(1) * * *

- (iii) Effect of interest payments. If the annual percentage yield is based in whole or in part on interest distributions:
- (A) The interest distribution frequency.
- (B) A statement that the annual percentage yield assumes the consumer immediately reinvests interest payments at the account's interest rate.
- 5. Section 230.5 would be amended by adding a new paragraph (a)(2)(iv) to read as follows:

*

§ 230.5 Subsequent disclosures.

*

(a) * * *

(2) * * *

(iv) Changes to the frequency of interest payments initiated by the consumer. Changes initiated by the consumer to the frequency of interest payments.

- 6. Section 230.8 would be amended as follows:
- a. Paragraph (c)(6)(iii) would be removed;
- b. A new paragraph (c)(7) would be added; and
- c. Paragraph (e)(1) introductory text would be revised.

The addition and revision would read as follows:

§ 230.8 Advertising.

(c) * * *

- (7) Effect of compounding or interest distributions. The frequency of compounding or interest distributions. If the annual percentage yield is based (in whole or in part) on interest distributions, a statement that the annual percentage yield assumes the consumer immediately reinvests interest payments at the account's interest rate.
- (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), (c)(7),(d)(4), and (d)(5) of this section:
- 7. In Part 230, Appendix A would be amended under one of the two following alternatives:
- a. Under the first alternative, Appendix A would be amended to read as follows:
- i. The introductory text would be revised;

- ii. The introductory text to Part I would be revised:
- iii. In Part I, A. General Rules the text preceding Examples would be revised;
- iv. In Part I, A. General Rules, under Examples, new paragraphs (3) and (4) would be added; and
- v. In Part I, A. section E would be removed.
- b. Under the second alternative, Appendix A would be amended as follows:
- i. The introductory text to Appendix A would be revised;
- ii. The introductory text to Part I would be removed:
- iii. In Part I, A. General Rules would be revised;
- iv. In Part I, B. Stepped Rate Accounts (Different Rates Apply in Succeeding Periods), the *Examples* would be revised:
- v. In Part I, C. Variable-Rate Accounts would be revised; and
- vi. In Part I, section E would be removed.

The revisions and additions under the first alternative would read as follows:

Appendix A to Part 230—Annual **Percentage Yield Calculation**

The annual percentage yield measures the total amount of interest earned or imputed on an account based on the interest rate and the frequency of compounding or interest distributions.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 vield 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 (taking into account the frequency of interest distributions or

compounding) and the amount of principal used to calculate that interest. Special rules apply to accounts with tiered and stepped interest rates.

A. General Rules

1. The annual percentage yield shall be calculated by the formula shown in paragraph 2 of Part I.A. of this appendix. 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 no withdrawals or deposits of principal occur during the term. 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").

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

APY+100[(1+(Interest/principal))(365/Days

in term) -1

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

b. "Interest" is the total dollar amount of interest earned on the Principal for the term of the account in which interest remains in the account. If interest is distributed by check or transfer at the same frequency or more frequently than interest is compounded, "Interest" is imputed to be the amount that would result if it were compounded at the same frequency interest is distributed. If interest is distributed by check or transfer and that interest is based in part on compounding, "Interest" is imputed to be the amount that would result if the distributed interest based on that compounding frequency had remained in the account.

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

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

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