used for accounts that make a single interest payment at maturity. When using the formula, institutions shall determine the total interest figure to be used in the formula by assuming that all principal and interest remain on deposit for the entire term and that no other transactions (deposits or withdrawals) occur during the term. The annual percentage yield is calculated by use of the following 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.

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, where the stated maturity is 365 days or where the account does not have a stated maturity), the annual percentage yield may be calculated by use of the following simple formula:

APY=100 (Interest/Principal)

Examples

(1) If an institution pays \$61.83 in interest in a single payment at maturity for a 365-day year on \$1,000 deposited into a one-year CD (with a 6.00% interest rate and daily compounding), using the formula shown in paragraph 3. of Part I.A. of this appendix, the annual percentage yield is 6.18%: APY=100 [(1+(61.83/1,000))^(365/365)-1]

APY=6.18%.

(2) If an institution offers a \$1,000 sixmonth certificate of deposit (where the six-month period used by the institution contains 182 days, interest is paid at maturity, and there is daily compounding at a 6.00% interest rate), using the formula shown in paragraph 3. of Part I.A. of this appendix, 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)

* *

Examples

(1) If an institution offers a \$1,000 6month certificate of deposit on which it pays a 5.00% interest rate, compounded daily, for the first three months (which contain 91 days), and a 5.50% interest rate, compounded daily, for the next three months (which contain 92 days), the total interest paid in a single payment at maturity for six months is \$26.68, and using the formula in

paragraph 3. of Part I.A. of this appendix, 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 6.00% interest rate, compounded daily, for the first year, and a 6.50% interest rate, compounded daily, for the next year, the total interest paid in a single payment at maturity is \$133.13 and, using the formula in paragraph 3. of Part I.A. of this appendix, the annual percentage yield is 6.45%:

APY=100 [(1+133.13/1,000)^(365/730)-1] APY=6.45%

(3) For a \$1,000 two-year certificate of deposit (with an interest rate of 6.00% and a daily periodic rate of .01644% the first year, and an interest rate of 6.50% and a daily periodic rate of .01781% the second year, no compounding but semiannual interest payments), an institution makes two payments during the first year, a midyear interest payment of \$29.92 on day 182 and a year-end interest payment of \$30.08 on day 365, and two payments during the second year, a midyear interest payment of \$32.41 on day 547 and a final payment of \$1032.59 on day 730. Using the formula in paragraph 3. of Part I.A. of this appendix, the annual percentage yield is 6.34%:

- 1,000=29.92/(1+APY/100)182/365+30.08/ (1+APY/100)365/365
- +32.41/(1+APY/100)547/365+1032.59/ (1+APY/100)730/365

Daily yield=.01684%

APY=6.34%

C. Variable-Rate Accounts

1. 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.

2. Variable-rate accounts with an introductory premium (or discount) rate must be calculated like a stepped-rate account. Thus, an institution shall assume that: (i) The introductory interest rate is in effect for the length of time provided for in the deposit contract; and (ii) 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 remainder 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.

3. For example, assume an institution offers an account on which it pays quarterly interest payments at an introductory 7.00% interest rate and a .01934% daily periodic 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 5.00% with a daily periodic rate of .01378%. For a 365-day year on a \$1,000 deposit an institution would make one quarterly interest payment on day 91 of \$17.60 (based on 91 days at 7.00%), followed by two interest payments of \$12.54 on days 182 and 273, and a final payment of \$1012.68 on day 365 (based on 274 days at 5.00%). Using the formula in paragraph 2. of Part I. A. of this appendix, the annual percentage yield is 5.66%:

1,000=17.60/(1+APY/100)91/365+12.54/ (1+APY/100)182/365

+12.54/(1+APY/100)273/365+1012.68/

(1+APY/100)^{365/365} Daily yield=.01508%

APY=5.66%

* * * 8. In Part 230, Appendix B would be

amended as follows: a. Under B-1-Model Clauses For Account Disclosures:

i. A new paragraph (a)(v) would be added following the text under Tiering Method B:

ii. Paragraph (b)(i) would be revised; iii. Paragraphs (h)(iii) and (h)(v)

would be removed; and

iv. Paragraph (h)(iv) would be redesignated as paragraph (h)(iii),

b. The last two sentences in the first paragraph of B-7-Sample Form would be removed; and

c. A new B-10-Sample Form would be added.

The additions and revisions would read as follows:

Appendix B to Part 230—Model Clauses and Sample Forms

* *

B-1—Model Clauses For Account Disclosures

*

(a) * * *

(v) Effect of interest payments Your annual percentage yield is based _(time period) payments/ on checks, and assumes you immediately reinvest interest payments at the account interest rate. *

* *

(b) Compounding and crediting