

December 22, 2005

Ms. Orla Beth Peck
Supervisor of Credit Unions
Utah Department of Financial Institutions
P. O. Box 146800
Salt Lake City, UT 84114-6800

Re: Calculating Annual Percentage Yield (APY) Earned under
the Truth in Savings Rule.

Dear Ms. Peck:

You have requested guidance on apparent violations of the Truth in Savings regulation that you discovered during recent examinations of three credit unions. Specifically, you have asked if the disclosure of an APY earned that is greater or less than the .05% tolerance rate is a violation of the Truth in Savings rule. 12 C.F.R. Part 707. Yes, it is. Additionally, you have asked if small balance accounts are exempt from the tolerance rate for disclosing the APY earned. No account is exempt from the accuracy requirements under the rule.

The examination of share accounts at three credit unions revealed that computer software rounded the dividends paid to the nearest hundredth of a percent. Consequently, the credit unions recorded an APY earned that was greater or less than the actual APY. In some cases, the amounts exceeded the .05% tolerance rate set in the general disclosure rules. 12 C.F.R. §707.3(f)(2). The discrepancies generally affected small balance accounts ranging from \$5 to \$100. The software vendor contends the discrepancies are inherently created by the rounding. We disagree.

Under the Truth in Savings rule, rounding for disclosures is done differently than rounding for calculations. Credit unions must round the APY, APY earned, and dividends to the nearest .01% and express them to two decimal points when they make disclosures in writing. 12 C.F.R. §707.3(f)(1). Rounding the APYs to two decimal places assists members in comparing rates of competing financial institutions. 58 F.R. 50394, 50413 (September 27, 1993). Credit unions are permitted to round to no less than five decimal points for calculating yields. 12 C.F.R. Appendix A to Appendix C, Part I. Rounding the yields to five decimal places for calculations prevents a variation between the yields that exceeds or is less than the tolerance rate.

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The .05% tolerance rate ensures accurate disclosure of the APYs to members and takes into account inadvertent errors. The disclosed APY is accurate if it does not differ from the actual APY by more than .05%. 12 C.F.R. §707.3(f)(2).

Small balance accounts are not exempt from the requirements of the Truth in Savings rule. The intent of the Truth in Savings Act and Part 707 are to ensure members and potential members receive accurate information about credit unions accounts to make informed decisions. 12 C.F.R. §707.1(b). The rules for disclosing and calculating APYs apply to all accounts, and the formulas take into account varying balances and statement periods. Therefore, if the proper rounding is done when calculating the yields, an account balance will not affect the yields so substantially that the tolerance rate is violated.

Please contact Staff Attorney Moissette Green or me at (703) 518-6540 if you have any questions.

Sincerely,

Sheila A. Albin
Associate General Counsel

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