

November 5, 1997

Bob Wilson, Senior Vice President
Mississippi Credit Union System
P.O. Box 9575
Jackson, MS 39286

Re: Annual Percentage Yield Calculations
Your letter dated September 8, 1997.

Dear Mr. Wilson:

You ask whether your annual percentage yield (APY) calculations on noncompounded share certificates with a maturity of more than one year are correct. Yes, your APY calculations are correct. On noncompounded share certificate accounts with a maturity of more than one year, the APY is less than the stated dividend rate. However, NCUA will not take exception to credit unions disclosing an APY equal to the dividend rate for noncompounding certificate accounts with maturities greater than one year that require interest distributions at least annually.

BACKGROUND

You provided several correct examples of APY calculations, using calculations prescribed by the Federal Reserve Board, for noncompounding share certificates with a maturity of more than one year where the result is that the APY is less than the declared rate: 5-year share certificate, dividend rate 5.75%, APY 5.18%; 3-year share certificate, dividend rate 5.60%, APY 5.31%; and 18-month share certificate, dividend rate 5.40%, APY 5.33%.

DISCUSSION

The Truth in Savings Act, 12 U.S.C. §§ 4301-4313, requires credit unions to provide disclosures about their share and deposit accounts, including an APY on dividend- and interest-bearing accounts calculated under a prescribed method. The APY is the primary uniform measurement for consumer comparison shopping among bank, thrift, and credit union share and deposit accounts. The APY measures the total amount of dividends a credit union pays on an account based on the dividend rate and the frequency of compounding. 12 C.F.R. Part 707, App. B. The APY is expressed as an annualized rate, based on a 365-day year. For multi-year share certificate accounts that are noncompounding, the APY formula produces an APY lower than the stated dividend or interest rate.

In order to address this situation, the Federal Reserve Board (FRB) issued the attached interim rule that permits banks and thrifts subject to the FRB's Regulation DD on Truth in Savings to disclose an APY equal to the contract interest rate for certificate accounts with maturities greater than one year that do not compound, but require interest distributions at least annually. 60 Fed. Reg. 5128 (1995). The FRB interim rule, which became effective on January 18, 1995, requires institutions that use this exception to disclose to customers in account disclosures and advertising that interest cannot remain on deposit and that the payout of interest is mandatory. Accounts that prohibit the withdrawal of interest or that permit, but do not require, the withdrawal of interest are not affected. The FRB adopted the interim rule to limit any consumer confusion and to allow more effective comparison shopping by consumers. The FRB has not yet made this

interim rule final, although it remains effective for banks and thrifts.

NCUA's Truth in Savings rules must be substantially similar to the FRB's Truth in Savings rules. 12 U.S.C. 4311(b). NCUA staff has been waiting for the FRB to finalize the interim rule before bringing a similar proposal to the NCUA Board for consideration.

In the meantime, NCUA supervision staff need not take exception to credit unions with share certificates that disclose an APY as being equal to the dividend rates for noncompounding multi-year share certificate accounts that require interest distributions at least annually. If a credit union advertises the dividend rate and APY as being the same for these accounts, it should also give the other disclosures required by the FRB's interim rule. This exception is a very narrow one. When it is not available, NCUA requires credit unions to disclose the accurate APY calculation properly, which is lower than the stated rate for noncompounding certificates with maturities for more than one year. Examiners will likely bring this exception, when it exists, to the attention of the appropriate credit union officials for their corrective action.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/MS:sg
SSIC 3253
97-0916

Enclosure

cc: Region III