TRUTH IN SAVINGS -- A SAVINGS AND LOAN CASE STUDY

by

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A MASTER'S THESIS

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Family Economics

KANSAS STATE UNIVERSITY

Manhattan, Kansas

1972

Approved by:

Richard L. D. Morse

Major Professor

THIS BOOK CONTAINS NUMEROUS PAGES WITH THE ORIGINAL PRINTING BEING SKEWED DIFFERENTLY FROM THE TOP OF THE PAGE TO THE BOTTOM.

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INTRODUCTION

The consumer's right to be informed has been confirmed by three successive U.S. Presidents since 1962. This right is implicit in one of the basic economic assumptions of the free market system, that the consumer must be knowledgeable of the goods and services marketed from which he selects his purchases. When fulfilled, this right enables the consumer to exercise the responsibility placed upon him not only to invest prudently, but to vigilantly observe that contract terms are met in the saving industry. One of the regulatory authorities of this industry, the Federal Deposit Insurance Corporation (F.D.I.C.) states, that it depends upon the bank's customers to help in policing of the industry.

> We also agree that the federal bank regulatory agencies are unable to routinely validate the interest paid on individual deposit accounts and that the gap in this area can best be filled by the consumer. Since limitations on personnel preclude us from doing more than making a spot check on individual accounts from time to time, we must rely heavily on a bank's customers to call irregularities in their accounts to our attention. (F.D.I.C. letter of August 18, 1971)

There remains great need for knowledge of and access to facts concerning the savings programs of savings institutions for the small investor and conscientious consumer to make accurate comparisons of investment opportunities, as well as to check for irregularities in their accounts.

Adequacy of Information Disclosed by Savings Institutions

Advertisements of savings institutions were examined both in the Pinson study (1970) and Osbaldiston and Morse study (1971) to determine the value of the information disclosed. The Osbaldiston and Morse study obtained advertisements from fourteen different newspapers from cities of all sizes throughout the U.S.A. during a twelve day period. The advertisements were graded on the basis of the information given concerning savings accounts. An advertisement was considered: complete if it stated the type of account, the nominal annual rate, the minimum amount required for the rate to apply, the length of time an amount has to be invested for the rate to apply, the dates on which the interest would be paid, the frequency of compounding, and the limitations and penalties imposed or bonuses allowed on each account; nearly complete if it supplied most of the necessary information but careful reading was required to locate it; little if it supplied very little information and; almost none if it contained almost none of the information needed. Nineteen per cent gave complete information and 28 per cent were judged to be nearly complete. More than one-half of the advertisements (53%) were judged inadequate in the information given. The interest rate, which is of major significance to savers, was displayed prominently in less than half (70) of the 152 advertisements. Neither the size of the advertisement nor the type of institution (whether a bank or a savings and loan association) were factors influencing the adequacy of the information disclosed.

The Pinson study revealed both the lack of factual information and the lack of a standardized terminology disclosed by savings institutions. In many instances, the advertised information might mislead or confuse the consumer comparing various savings opportunities. For example, the annual rate, given in large print, might apply to only a six-month savings certificate while all other information applied to a regular savings passbook account. Phrases such as, "daily interest", "computed daily", "paid daily", "day in to day out", "day of deposit to day of withdrawal", are not clearly defined and yet are used extensively in the advertisements of one or more savings institutions. This was acknowledged by the Federal Deposit Insurance Corporation (F.D.I.C.) in an exchange of letters with Dr. Richard L. D. Morse:

> However, this Corporation has not attempted to define by regulation the myriad terms which may be employed in bank advertising. Such an effort would only serve to further complicate what has already become a complex area of regulation. (F.D.I.C. letter of April 30, 1971)
>
> You are advised that this Corporation's regulations permit banks subject to its regulatory jurisdiction to compound interest on any basis they desire. The regulations do not attempt to define terms such as "compounded daily" or "credited quarterly", etc. However, they do prohibit advertisements which are inaccurate or misleading, or which misrepresent a bank's deposit contracts. (F.D.I.C. letter of April 16, 1971)

If consumers are to be informed, the terminology used by savings institutions must be defined and standardized.

Variability in Computing Interest Earned on Savings Deposits

The standard formula for simple interest is I = Prt which represents that the amount of interest equals principal times rate per time period times number of time periods. An example utilizing this formula would be a $1,000, 5 3/4% per annum for a one-year certificate of deposit. The $1,000 is the principal, the rate is 5 3/4%, and the time period is one year. The interest earned would be: $1,000 X .0575 X 1 = $57.50.

There are many variations in expressions of these factors in the savings market. The time factor is not always well defined. A year may be 360, 365, or 366 days. A quarter of a year may be 90, 91, or 92 days depending upon the particular quarter involved. The time factor is also affected by "grace days", which are days that earn interest on money that is not on deposit, or "penality days", which are days that do not earn interest on money that is on deposit. These days usually occur around interest payment dates.

The same nominal rate may earn different amounts of interest as a result of differences in frequency of compounding. For example, a $100 at 6% per annum may yield $6.00 if compounded annually, $6.14 if compounded quarterly and $6.18 if compounded continuously (Morse, 1966). These yields expressed in percentage form, can be confusing to the consumer who sees both the nominal rate and the yield rate. Before issuance of Regulation Q by the Federal Reserve Board governing the size of the rates in advertising, some savings institutions showed as high rates of earnings as 6.38% over a ten year period on a 5.00% nominal rate of saving (Morse, 1970).

This difference between the nominal and yield rates results from compounding and is manifested when the period under discussion (usually a year) is different from the period for which the nominal rate is quoted. That is, the above formula uses the "rate per period", meaning the rate to be applied to each unit of time, and therefore is called the periodic percentage rate (Morse, 1966). This periodic percentage rate, when multiplied by the number of such periods in a year, becomes the annual nominal percentage rate. If there is no compounding (that is, the interest earned each period is not added to the principal), then the yield at the end of the year will be the same as what the nominal annual percentage rate would produce. But if there is compounding, then at the end of the year the earnings will be greater than under simple interest and these earnings expressed as a rate will be called the yield or effective annual percentage rate.

The principal factor of the simple interest formula is greatly affected by the particular method used to determine the balance (principal) to be inserted into the formula. The American Bankers Association revealed the use of as many as 54 methods to determine this balance (Changing Times, 1971). Pinson studied five of these commonly used methods: (1) low balance, (2) first in, first out applied to the beginning balance, (3) first in, first out applied to the first deposits, (4) last in, last out and, (5) day of deposit to the day of withdrawal.

Pinson used a standard activity pattern to measure the dollar amount of yield for regular passbook savings accounts, assuming the same nominal annual percentage rate of 6 per cent. The study revealed a significant difference in yields. The highest yield, from method 5, was 171 per cent greater than the low balance method.

Other variables affecting the earnings include the frequency of crediting earned interest to the account, penalty assessments for excess number of withdrawals made during a stated period of time and, minimum or maximum account restrictions.

Savings institutions use various combinations of these variables. Therefore, the prudent saver needs access to these facts not only to compare the various savings opportunities available to him, but also to verify whether the savings institution with which he contracts to save performs correctly. Legislation, prompted by publication of an article in Changing Times, based on the Pinson thesis, was introduced May 12, 1971, in the U.S. Senate (S. 1848) by Senator Vance Hartke of Indiana and in the U.S. House of Representatives (H.R. 8365) by Representative Dr. Bill Roy of Kansas. It purportedly would enable consumers to be sufficiently informed to intelligently compare savings opportunities and to verify their own accounts. It is titled the "Truth in Savings Act". Since its introduction, there has been opportunity to discuss its provisions with interested parties and a proposed revision is under consideration by the bills' sponsors. Because the revision reflects the latest thinking, the following excerpts from the Act with the proposed revisions have been included below. (Morse, 1972)

Truth in Savings Act (suggested revision)

The purpose of the Act is

> to require a meaningful disclosure of the terms and conditions of the payment of earnings on individual savings deposits so that the individual will be able to compare the various savings programs available to him. (H.R. 8365, 1971)

The Act requires that savings institutions must make available in writing the following information regarding savings deposits to individuals who request it and at the time they initially place a deposit with the institution:

(1) The annual percentage rate;

(2) the minimum length of time a deposit must remain on deposit so that earnings are payable at that percentage rate;

(3) the annual percentage yield;

(4) the periodic percentage rate and the method used to determine the balance to which this rate will be applied;

(5) the number of times each year earnings are compounded;

(6) the dates on which earnings are payable;

(7) any charges initially or periodically made against any deposits;

(8) any terms or conditions which increase or reduce the rate of earnings payable as disclosed under items (1) or (3) and;

(9) any restrictions and the amount or method of determining the amount of penalties or charges imposed on the use of funds in any deposit.

The Act also requires that the savings institutions disclose annually and at the time any earnings report is made to an individual, either in person or by mail, the following information regarding his individual savings deposit:

(1) The amount of earnings paid;

(2) the annual percentage rate;

(3) the periodic percentage rate;

(4) the principal balance to which the periodic percentage rate was applied, and the method by which that balance was determined;

(5) any charges made against the account during the period covered for the purpose of computing the payment of earnings or making the report and;

(6) any other terms or conditions which increased or reduced the earnings payable under conditions as disclosed under items (1) or (3) of the previous list of nine disclosures.

In addition, the Act requires the savings institution to notify its individual depositors within ten days of any change with respect to any item of information required to be disclosed within the Act, unless the change is directed by regulatory authority.

Requirements of advertisements. Only the advertisements relating to the earnings payable on an individual savings deposit have any regulations placed upon them under the Truth in Savings Act. These requirements are no different than currently imposed by the Federal Reserve Board and other regulatory authorities. (Regulation Q, 1970) Advertisements must clearly and conspicuously state the annual percentage rate and any minimum time or amount requirements placed upon the deposit. No such advertisement can include any percentage rate or percentage yield based on a period in excess of one year or on the effect of any grace period. No advertisement can make use of the term "profit" in referring to earnings payable on a deposit. The savings institutions are free of any other regulations concerning the disclosure of savings terms to the public through their advertisements.

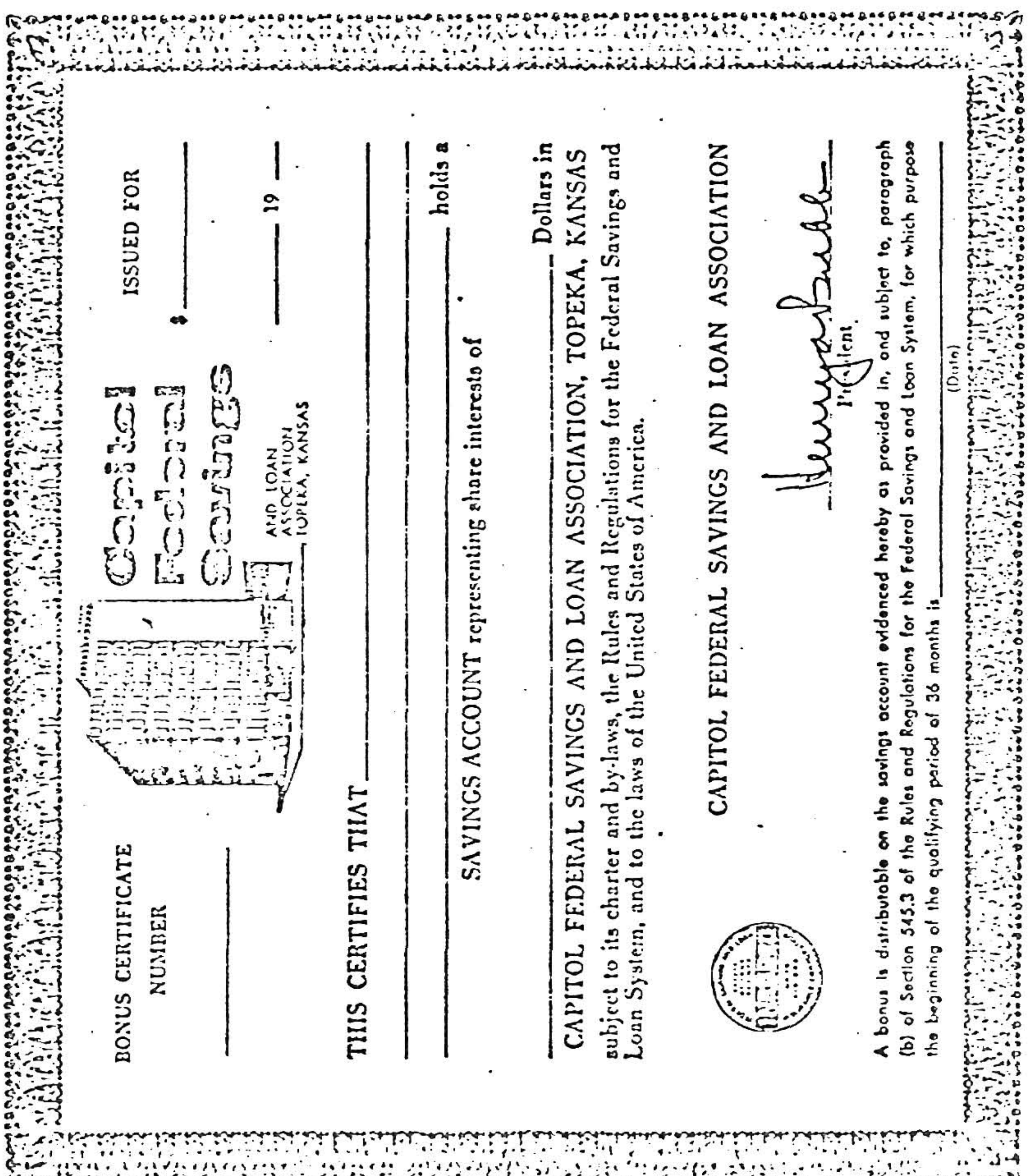
The Capitol Federal Savings and Loan Case Study

On March 25, 1968, Marjorie Morse opened a $2,000 bonus certificate, with a 36 month maturity date, with the Topeka office of the Capitol Federal Savings and Loan Association. A copy of the certificate is shown in Exhibit 1 (front and back). During the life of the contract there was considerable change in savings accounts being offered consumers, and she became concerned about the wisdom of continuing this account versus withdrawal and opening of other accounts. Advertisements provided only partial information. Inquiries and efforts to obtain better information at the offices were not satisfactory. In fact, she was treated so rudely that she vowed never again to ask for facts about her account. No action was taken on that account or other accounts because she was confused and uncertain. But finally, a form letter from the institution dated February 19, 1971, raised certain questions concerning previous interest rates and methods of computing interest on the bonus account which prompted her to make a determined effort to obtain clarification. The letter, Exhibit 2, stated: "After your bonus certificate reaches its three-year maturity date, it will continue to earn 5.50 per cent paid or compounded at the end of each regular calendar quarter ...." This implied that the new method of compounding the bonus portion had been in effect for three years when in fact it had not. After an hour-long discussion first with a teller, and then with a Vice President, the latter finally brought still another staff employee into the conference. This employee readily agreed with the customer that the letter was misleading. She gave evidence of having voiced objection about the letter to the management on a previous occasion. It seemed to Marjorie Morse beyond reason that one should need to spend that much time and effort to identify the full facts about a savings contract. As a result Marjorie Morse terminated the account on October 2, 1971.

ILLEGIBLE DOCUMENT

THE FOLLOWING DOCUMENT(S) IS OF POOR LEGIBILITY IN THE ORIGINAL

THIS IS THE BEST COPY AVAILABLE


BONUS CERTIFICATE
NUMBER

ISSUED FOR
$ ______
______ 19 ___

Capitol Federal Savings AND LOAN ASSOCIATION TOPEKA, KANSAS

THIS CERTIFIES THAT ______ holds a
SAVINGS ACCOUNT representing share interests of ______ Dollars in
CAPITOL FEDERAL SAVINGS AND LOAN ASSOCIATION, TOPEKA, KANSAS
subject to its charter and by-laws, the Rules and Regulations for the Federal Savings and Loan System, and to the laws of the United States of America.

CAPITOL FEDERAL SAVINGS AND LOAN ASSOCIATION

President

A bonus is distributable on the savings account evidenced hereby as provided in, and subject to, paragraph (b) of Section 545.3 of the Rules and Regulations for the Federal Savings and Loan System, for which purpose the beginning of the qualifying period of 36 months is ______
(Date)

Exhibit 1 (front).

Savings accounts shall be transferable only upon the books of the association and upon proper application by the transferee and the acceptance of the transferee as a member upon terms approved by the board of directors. The association may treat the holder of record of Savings account as the owner for all purposes without being affected by any notice to the contrary unless the association has acknowledged in writing notice of a pledge of such Savings account.

Certificate must be presented for withdrawal.

SAVINGS CERTIFICATE

CAPITOL FEDERAL SAVINGS
AND LOAN ASSOCIATION

TOPEKA GREATER KANSAS CITY LAWRENCE

Exhibit 1 (back).

Capitol Federal Savings
AND LOAN ASSOCIATION
700 KANSAS AVENUE
TOPEKA, KANSAS 66603
PHONE (913) 235-1341

1201 TOPEKA BLVD
TOPEKA KANSAS
2100 FAIRLAWN RD
TOPEKA KANSAS
11TH & VERMONT STS
LAWRENCE KANSAS
5251 JOHNSON DR
MISSION KANSAS
95TH & NALL
OVERLAND PARK, KANSAS
76TH TERRACE & STATE LINE
PRAIRIE VILLAGE KANSAS
87TH & SANTA FE
OVERLAND PARK, KANSAS
HENRY A BUBB CHAIRMAN
JOHN C DICUS PRESIDENT

February 19, 1971
Capitol Federal's 78th Year

Dear Bonus Certificate Holder:

The one-half per cent bonus on your three-year certificate account will be fully earned next month. Your bonus interest is due and will be paid exactly 36 months from the date shown at the bottom of your certificate.

Your three-year bonus interest will either be mailed to you, credited to your certificate or added to your companion passbook account, depending on the manner in which regular interest on your bonus account has been handled in the past.

After your bonus certificate reaches its three-year maturity date, it will continue to earn 5.50 per cent paid or compounded at the end of each regular calendar quarter on March 31, June 30, September 30 and December 31. You will be notified of any future rate change.

Capitol Federal's current 5.50 per cent interest rate compounded quarterly gives you an effective annual yield of 5.62 per cent. If your earnings are not presently being compounded on your certificate, we urge you to complete and return the enclosed authorization form so your annual yield can be increased to 5.62 per cent.

Thank you for maintaining your account at Capitol Federal Savings, and we invite you to write or come in if you have questions concerning your deposit.

Sincerely,

Edmund N. Morrill

Edmund N. Morrill
Senior Vice President

ENM:VL
Enc.

Exhibit 2.

The passbook had not been kept up, so the closing out of the account involved many entries. She then asked this writer to analyze the entries to determine what rates had actually been paid and how they were figured. This proved to be too difficult an assignment, so on October 6, 1971 she wrote the Capitol Federal Savings and Loan Association, requesting "a copy of the information supplied holders of these certificates at the time of issue through maturity." (See Exhibit 3) The institution responded by letter dated October 8, 1971 that the bonus certificate "received the regular savings passbook rate from the day it was opened until the time it reached its 3-year maturity date." (See Exhibit 4) At maturity the account received $30 which represented the $\frac{1}{2}$ per cent bonus interest payment on the $2,000 account for three years. However, this bonus payment was not compounded, even annually, but represented simple interest over the 3-years. This payment was made at the end of the third year which was contrary to the normal procedure of either paying or compounding at least annually. After maturity the account began to earn $5\frac{1}{2}$ per cent paid quarterly because bonus accounts earn the regular passbook rate plus $\frac{1}{2}$ per cent bonus. However, copies of the actual notices supplied to the customers were not provided. Another letter written October 13, 1971, again asked for these notices along with the notices supplied to the passbook savings holders during this same period. (See Exhibit 5) Capitol Federal Savings and Loan Association responded October 18, 1971 stating that the "actual notices of changes in interest rates on passbook accounts have not been mailed to depositors", but that these changes "are continuously announced in our advertising" and "through our quarterly issues of 'News and Views'" which is circulated among employees and customers. (See Exhibit 6) This presumes that the holder reads the newspapers in which the advertising appears or combs through each edition of the newsletter.

2429 Lookout Drive
Manhattan, Kansas
October 6, 1971

Capitol Federal Savings and Loan
700 Kansas Avenue
Topeka, Kansas 66603

Dear Sirs,

I have recently redeemed a three year bonus certificate, No. 7702[illegible]B, issued March 25, 1963.

The certificate did not designate the rate of return and my passbook account No. 2700[illegible]7B into which certificate interest earnings were deposited shows considerable variation in amounts suggesting a change in the interest rates.

I am sure these rates were disclosed from time to time as were terms or methods of figuring the interest.

I would appreciate your sending me a copy of the information supplied holders of these certificates at the time of issue through maturity. I have a copy of the letter dated Feb. 14, 1971.

Sincerely yours,

Marjorie J. Morse

Exhibit 3

Capitol Federal Savings
AND LOAN ASSOCIATION
700 KANSAS AVENUE
TOPEKA, KANSAS 66603
PHONE (913) 235-1341

1201 TOPEKA BLVD
TOPEKA KANSAS

2100 FAIRLAWN RD
TOPEKA KANSAS

11TH & VERMONT STS
LAWRENCE KANSAS

5251 JOHNSON DR
MISSION KANSAS

95TH & NALL
OVERLAND PARK, KANSAS

76TH TERRACE & STATE LINE
PRAIRIE VILLAGE KANSAS

87TH & SANTA FE
OVERLAND PARK, KANSAS

HENRY A. BUBB CHAIRMAN
JOHN C. DICUS PRESIDENT

EDMUND N. MORRILL
SENIOR VICE PRESIDENT

October 8, 1971
Over One Half Billion Dollars Safe

Mrs. Richard L. D. Morse
2429 Lookout Drive
Manhattan, Kansas 66502

Dear Mrs. Morse:

Your bonus certificate #770206 received the regular savings passbook rate from the day it was opened until the time it reached its 3-year maturity date. At that time your bonus account received a bonus interest payment of $30 representing 1/2% interest on your $2,000 account for a full three years.

At the time your bonus account was established the regular passbook rate was 4 3/4% paid semi-annually. Effective January 1, 1970, the passbook rate was changed to 5% paid quarterly and this rate automatically applied to your account as of January 1, 1970.

After your bonus account reached its 3-year maturity date on March 25, 1971, it began to earn 5½% paid quarterly because matured bonus accounts are eligible to receive the regular passbook rate plus the 1/2% bonus paid quarterly.

If you have further questions or if we can be of service in any way, please let us know.

Sincerely,

Edmund N. Morrill
Edmund N. Morrill
Senior Vice President

ENM:ns

Exhibit 4

2429 Lookout Drive
Manhattan, Kansas 66502
October 13, 1971

Mr. Edmund N. Morrill
Senior Vice President
Capitol Federal Savings
and Loan Association
700 Kansas Avenue
Topeka, Kansas 66603

Dear Mr. Morrill:

Thank you for your letter of October 8. The facts as you have stated them are very helpful. However, I would appreciate having a copy of the actual letters or notices that were sent out each time there was a change during the life of certificate #770206.

Also, I would appreciate having a record of actual notices supplied passbook savings holders since March 25, 1968 when I opened account #270007. I am not sure of the rate that was to be paid or familiar with the method used to figure the interest.

Sincerely yours,

Marjorie Morse

Marjorie Morse

Exhibit 5

1201 TOPEKA BLVD
TOPEKA, KANS

2100 FAIRLAWN RD.
TOPEKA KANS

11TH & VERMONT STS
LAWRENCE KANS

5251 JOHNSON DR
MISSION KANS.

95TH & NALL
OVERLAND PARK KANS

MEADOW LAKE SHOPPING CENTER
PRAIRIE VILLAGE KANS

87TH & SANTA FE
OVERLAND PARK KANS

HENRY A BUBB, PRESIDENT

Capitol Federal Savings

AND LOAN ASSOCIATION

700 KANSAS AVENUE
TOPEKA, KANSAS 66603

October 18, 1971
Over One Half Billion Dollars Safe

Mrs. Marjorie Morse
2429 Lookout Drive
Manhattan, Kansas 66502

Dear Mrs. Morse:

Actual notices of changes in interest rates on passbook accounts have not been mailed to depositors.

Current interest rates are continuously announced in our advertising and through our quarterly issues of "News and Views".

Again, your bonus certificate contract called for your certificate to earn the savings passbook rate from the time it was issued until its 3-year maturity date with a one half percent bonus being due at that time. Listed below are the savings passbook rates that have been paid since March 25, 1968.

3-25-68 to 12-30-69	4 3/4% compounded semi-annually
1-1-70 to 9-30-70	5% compounded quarterly
10-1-70 to present	5% compounded daily

The enclosed pamphlets explain the interest rates on accounts currently offered by Capitol Federal. Even though new bonus accounts are not being issued, matured bonus certificates currently earn 5½% compounded quarterly.

Sincerely,

Edmund N. Morrill

Edmund N. Morrill
Senior Vice President

ENM:ns
Enc.

MEMBER FEDERAL HOME LOAN BANK SYSTEM
MEMBER FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Exhibit 6

The ambiguity of the final letter and previous experiences in attempting to clarify the terms of her account, gave her cause to wonder (1) if the rates that had actually been paid on her contract corresponded with changes in rates on other accounts, (2) if she had been informed of any changes and how she was informed, (3) whether she had neglected her responsibility to maximize her earnings by her alertness to these changes and, (4) if the amount of earnings paid on her account were correct.

OBJECTIVES

The general objective of this study was to learn whether the means are available for a consumer to carry out her responsibility in regard to the selection and use of a savings account. The specific objectives of this study were:

(1) to verify the earnings paid to the bonus certificate No. 770206B and companion passbook No. 270007,

(2) to determine the adequacy of the information disclosed in the advertisements concerning the savings opportunities with Capitol Federal Savings and Loan Association within the dates of March 25, 1968 and October 1, 1971,

(3) to determine whether the changes in methods used to compute earnings on the bonus certificate corresponded with changes made in computing earnings on other savings accounts advertised,

(4) to determine whether the bonus certificate offered optimum earnings on $2,000 among savings plans available at Capitol Federal Savings and Loan Association for the period March 25, 1968 to October 1, 1971.

PROCEDURE

The Capitol Federal Savings and Loan Association October 18th letter implied that the information needed by a consumer concerning earnings payable on savings accounts was continuously disclosed in their advertisements. Therefore, a search of Capitol Federal Savings and Loan advertisements appearing in the Topeka Daily Capitol was made for the 42 month period. Sunday editions of the Topeka Daily Capitol newspaper were searched for the Capitol Federal Savings and Loan advertisements from March 1968 to June 1971, using the library facilities of the Capitol-Journal. Newspapers for the period of July through September, 1971 were not available. An intensive search was made of the daily newspapers each week preceeding and following the dates January 1, 1970 and October 1, 1970, when interest rate and frequency of compounding changes became effective according to the October 18th letter. The two dates also served to organize the 42 month period into three time zones:

Time Zone A:	3/1/68 to 12/31/69	4 3/4%	compounded semi-annually
Time Zone B:	1/1/70 to 9/30/70	5.0%	compounded quarterly
Time Zone C:	10/1/70 to 10/ 1/71	5.0%	compounded daily

The technique employed was to photograph each advertisement which revealed new or different information from the previous advertisement. Duplicate advertisements were not photographed. The result was a picture sequence of the information disclosed in the advertisements, and is shown in Exhibits 7 and 8. The advertisements were analyzed for information which would be useful for comparing savings plans and for computing earnings. Standards for evaluating the adequacy of information were established. Advertisements were judged to be: complete if the information disclosed included the name of the account, annual percentage rate, the annual percentage yield, minimum amount and time restrictions

THIS BOOK CONTAINS SEVERAL DOCUMENTS THAT ARE OF POOR QUALITY DUE TO BEING A PHOTOCOPY OF A PHOTO.

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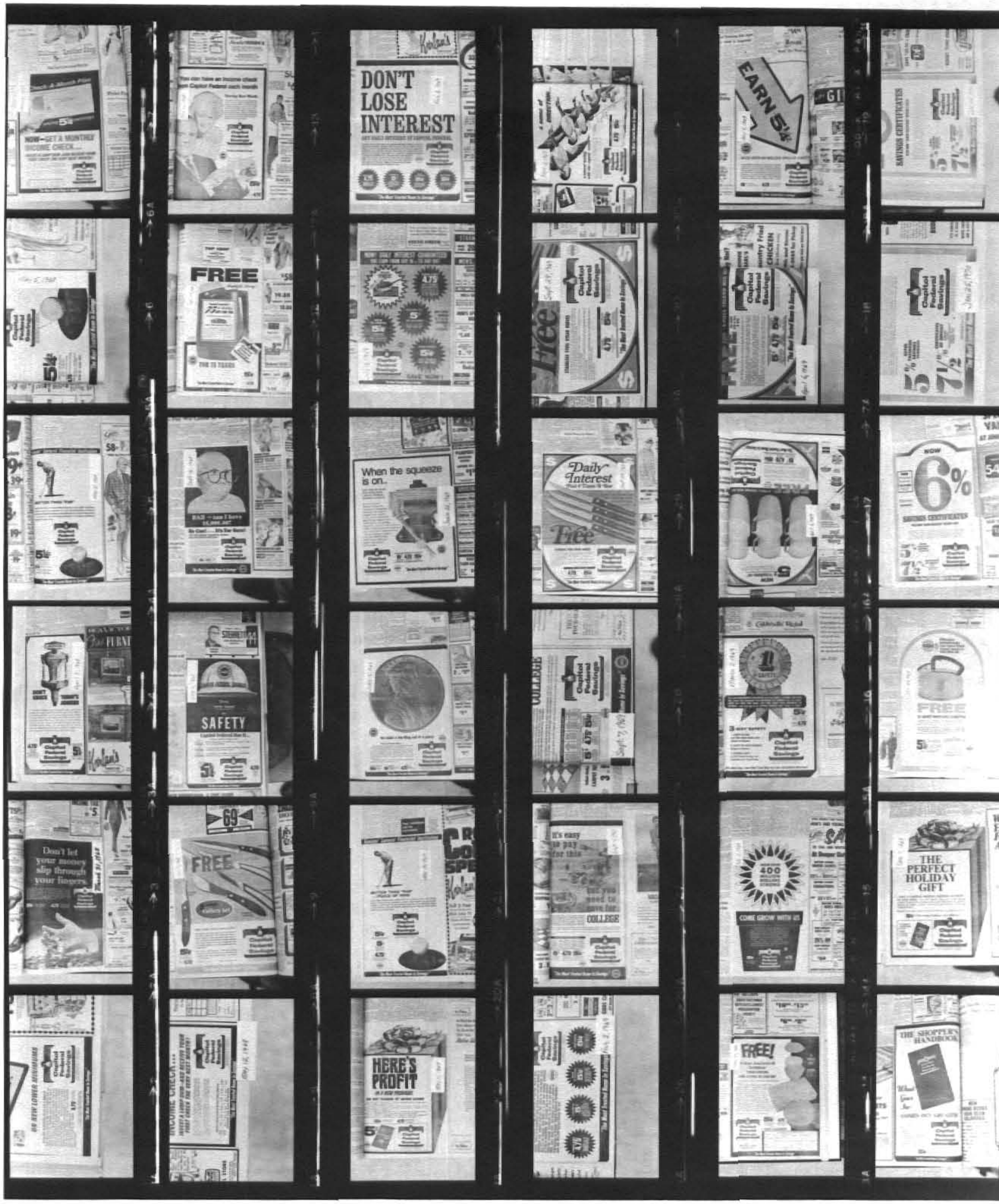
DON'T
LOSE
INTEREST
FREE
EARN 5¼
When the squeeze is on...
Daily Interest
Free
6%
SAVINGS CERTIFICATES
SAFETY
COLLEGE
Don't let your money slip through your fingers.
FREE
COME GROW WITH US
THE PERFECT HOLIDAY GIFT
HERE'S PROFIT
FREE!
THE SHOPPER'S HANDBOOK
Capitol Federal Savings

Exhibit 7


EARN
INTEREST
TODAY
SAVER'S CHOICE
FREE!
Do Your Own Thing
DAD – can I have
$5,000.00?
You may not be
our only customer,
but we try to
act like you are.
A
half BILLION
DOLLAR
INSTITUTION
And still growing...
WANTED
TO RENT
COME
AND
GET
IT!
FREE

Exhibit 8

placed upon deposits, the method used to determine the balance the interest rate would be applied to, the frequency of compounding, the dates for paying earnings, and any penalties placed upon the account (periodic percentage rate was not included because it was known not to be disclosed); nearly complete but adequate if the information included only the annual percentage rate, minimum amount and time restrictions, method used to determine the balance the interest rate would be applied to, the frequency of compounding, and any penalties; incomplete and inadequate if the advertisements lacked any of the information deemed necessary to evaluate savings accounts.

The advertisements were also reviewed to determine the sequence of disclosed interest rates, that is, whether the changes in interest rates on the bonus certificate corresponded with changes in interest rates on the other accounts.

Finally, the earnings from the bonus certificate was compared to the earnings obtainable from other possible combinations of savings accounts. The combination offering the highest interest rates was used as the basis for comparison. A determination was made of whether the bonus certificate offered optimum earnings on $2,000 among savings plans available at Capitol Federal Savings and Loan for the period March 25, 1968 to October 1, 1971.

RESULTS AND DISCUSSION

Verification of Earnings Paid

A companion passbook account #270007 was opened at the time the bonus certificate was issued, with a deposit of $85.01. The companion passbook was to serve as the depository for all earnings paid from the bonus certificate #770206B. (See Exhibits 9 and 10) The passbook was given to this writer who had access to a machine calculator, to review the earnings recorded and to determine to the best of his ability the basis for the earnings computed and recorded in the passbook. Since neither the certificate nor the passbook revealed the rate and the method of determining the balance to which a rate was applied to compute the recorded earnings, he was obliged to use a trial and error method. The analysis took two and a half weeks to complete. The following recounts the procedures employed and success the writer had in reconstructing the earnings from the bonus certificate and from the passbook itself. (See Table 1)

Reconstruction of Earnings Paid on the $2,000 Bonus Certificate

The actual interest paid on the $2,000 certificate was divided by the principal amount of $2,000 to deduce the assumed periodic percentage rate. The assumed time factor was first estimated by surveillance of the recorded dates in the passbook, and then determined and verified by using various estimated time factors which when multiplied by a likely annual percentage rate such as 4.75% or 5% would equal the assumed periodic percentage rate. These then were applied to the $2,000 principal to derive the amount of interest which should have been paid. The patterns developed by this procedure produced results which agreed perfectly for ten of the twelve interest entries. The difference between the actual and derived occurred December 31, 1970 and the next paying

IT'S TIME TO SAVE

ACCOUNT NUMBER 270007

	DATE		EARNINGS	WITHDRAWALS	PAYMENTS	BALANCE	
1	MAR25-68				K****1.8[illegible]	*****1.89	KS[illegible]
2	[illegible]				[illegible]**[illegible]3.12	[illegible]*[illegible]5.[illegible]	AT [illegible]
3	FEB23-70	[illegible] 68 [illegible]	***1.01			****86.02	A DV
4	FEB23-70	[illegible]	**23.75			***109.77	A DV
5	FEB23-70	[illegible] 61 [illegible]	***2.61			***112.38	A DV
6	FEB23-70	[illegible]	**47.50			***159.88	A DV
7	FEB23-70	69 [illegible]	***3.80			***163.68	A DV
8	FEB23-70	[illegible]	**47.50			***211.18	A DV
9	FEB23-70	69 [illegible]	***5.0[illegible]			***216.2[illegible]	A DV
10	FEB23-70	[illegible]	**47.89			***264.1[illegible]	A DV
11	[illegible]	3-31-70 Interest	***3.2[illegible]			***267.[illegible]	A DV
12							
13	[illegible]	[illegible]	[illegible]			***2[illegible]	[illegible]
14	OCT-2-71	6-30-70 Interest	***3.6[illegible]			***295.6[illegible]	A DV
15	OCT-2-[illegible]	[illegible]	**24.9[illegible]			***320.61	A DV
16	OCT-2-71	9-30-70 Interest	***4.0[illegible]			***324.65	A DV
17	OCT-[illegible]	[illegible]	**25.21			***34[illegible]	A DV
18	OCT-[illegible]	12-31-70 interest	***[illegible]			***35[illegible].30	A DV
19	OCT-2-7[illegible]	[illegible]	**25.0[illegible]			***379.3[illegible]	A DV
20	OCT-2-71	[illegible]	**24.[illegible]			***40[illegible].1[illegible]	A DV
21	OCT-2-71	3-31-71 Interest	***[illegible].7[illegible]			***40[illegible]	A DV
22	OCT-2-7[illegible]	[illegible]	**30.0[illegible]			***43[illegible]	A DV
23	OCT-2-[illegible]	[illegible]	**27.5[illegible]			***466.[illegible]	A DV
24	OCT-2-[illegible]	[illegible]	***5.5[illegible]			***471.[illegible]	A DV
	OCT-2-[illegible]		**27.5[illegible]			[illegible]	[illegible]

BOOK MUST BE PRESENTED TO MAKE WITHDRAWAL

Exhibit 9

MAKE THRIFT A HABIT

ACCOUNT NUMBER

	DATE		EARNINGS	WITHDRAWALS	PAYMENTS	BALANCE	
1							
2	[illegible]-71	[illegible]	***5.9[illegible]			***505.36	A [illegible]
3	OCT-2-71	*35401		***505.36		******.00	3H 12
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							

THANK YOU
for the privilege of
serving you
CAPITOL FEDERAL SAVINGS

BOOK MUST BE PRESENTED TO MAKE WITHDRAWAL

Exhibit 10

Table 1. Actual and deduced earnings on $2,000 bonus certificate.

Interest payment date (1)	Actual days covered (2)	Assumed APR (3)	Assumed time factor (4)	Actual interest paid on $2,000 (5)	Deduced interest (6)	Difference (5 - 6) (7)
3/25/68	-	-	-	-	-	-
3/31	6	-	-	-	-	-
6/30	91	.0475	1/4 yr	$23.75	$23.75	-
12/31	184	.0475	1/2 yr	47.50	47.50	-
6/30/69	181	.0475	1/2 yr	47.50	47.50	-
12/31	184	.0475	184/365 yr	47.89	47.89	-
3/31/70	90	.05	90/365 yr	24.65	24.65	-
6/30	91	.05	91/365 yr	24.93	24.93	-
9/30	92	.05	92/365 yr	25.21	25.21	-
12/31	92	.05	92/365 yr	25.00	25.21	-.21
3/31/71	90	.05	90/365 yr	24.85	24.65	+.20
3/31	(3 years)	.005	3 years	30.00	30.00	-
6/30	91	.055	1/4 yr	27.50	27.50	-
9/30	92	.055	1/4 yr	27.50	27.50	-

date, March 31, 1971, suggesting that the 21 cent "shortage" was "restored" by a 20 cent overpayment on March 31.

Whether this difference was in fact a shortage-restoration situation or a change in the developed pattern for computing earnings is not clear. The half-year, for example, was figured as a one-half of a year in several situations, and as the actual number of days in a specific half-year in other situations. Likewise, when quarterly interest was paid, it was figured as one-quarter of the year as well as based on the actual number of days in the specific quarter, ranging from 90 to 92 days. There was no consistency in the use of a fractional year time period or of actual number of days between interest paying dates.

Reconstruction of Earnings Paid on the Companion Passbook

The above method was used to deduce the earnings paid on the companion passbook account. (See Table 2) The actual interest paid as recorded in the passbook was divided by the previous period's ending balance to compute the assumed periodic percentage rate. The assumed time factor was estimated and verified by using the same procedure as used in calculating the earnings on the bonus certificate. However, beginning on December 31, 1970 and for all subsequent interest payment dates, the assumed time factor was not determinable.

A clue, that being daily compounding, was given in the letter of October 18, 1971 from Capitol Federal Savings but did not state whether the rate factor was used on a 360-, 365- or 366-day year. A daily compounded rate factor table based on 5 per cent per annum and 365 days, was found to verify the actual interest payments on the passbook. The deduced interest was computed by multiplying the daily factor for the actual number of days times the ending balance of the previous period. All of the actual and deduced interest payments

Table 2. Actual and deduced earnings on companion passbook.

Interest payment date (1)	Actual days covered (2)	Assumed APR (3)	Assumed time factor (4)	Actual interest paid on $2,000 (5)	Deduced passbook interest (6)	Actual passbook interest paid (7)	Actual ending balance (8)
3/25/68	-	-	-	-	-	-	-
3/31	6	-	-	-	-	-	$ 85.01
6/30	91	.0475	1/4 yr	$23.75	$1.01	$1.01	109.77
12/31	184	.0475	1/2 yr	47.50	2.61	2.61	159.88
6/30/69	181	.0475	1/2 yr	47.50	3.80	3.80	211.18
12/31	184	.0475	184/365 yr	47.89	5.06	5.06	264.13
3/31/70	90	.05	90/365 yr	24.65	3.26	3.26	292.04
6/30	91	.05	91/365 yr	24.93	3.64	3.64	320.61
9/30	92	.05	92/365 yr	25.21	4.04	4.04	349.86
		Daily compounded rate factor based on 5%, 365 days					
12/31	92	.0126816148		25.00	4.44	4.44	379.30
3/31/71	90	.0124042248		24.85	4.70	4.73	408.88
3/31	(3 years)	(.005)	(3 years)	30.00	-	-	438.88
6/30	91	.0125429103		27.50	5.50	5.50	471.88
9/30	92	.0126816148		27.50	5.98	5.98	505.36

matched except for a three cent difference on March 31, 1971. The reason for this difference could not be determined by the researcher, and therefore was declared a clerical error.

This verification would not have been feasible if the researcher had not had access to a machine calculator, nor possible without personal correspondence with the savings institution. Neither the passbook nor the certificate disclosed the information needed to verify the earnings.

Adequacy of Information Disclosed in Advertisements

Eighty four per cent of the observed Sunday newspapers contained Capitol Federal Savings and Loan advertisements. Of these 137 advertisements, 48 (35%) were new, that is appeared for the first time in the papers. (See Table 3) One half of these new ads "ran" for 2 weeks or less, the mean "time run" for all ads was 2.8 weeks. The institution was quite flexible in its advertising and was accustomed to making frequent changes in its layout.

Table 3. Advertisements in Sunday papers.

	Total Sundays observed	Paper with no ad	Paper with ad	Paper with new ad
Total	164	27	137	48
Zone A	95	20	75	26
Zone B	39	4	35	13
Zone C	*30	3	27	9

*There were 52 Sundays in Zone C but 22 papers were not available to observe.

Bonus Certificate. None of the advertisements over the 42 month period referred to the bonus certificate. Therefore, Mrs. Morse could not have identified with any information disclosed in advertisements during the life span of her account.

Neither the certificate itself nor the passbook earnings' statement alerted her to the fact that the rate was pegged to the regular passbook rate, as is revealed in her letter of Obtober 6 and explained in the institution's reply of October 8.

If Mrs. Morse had identified with other certificates advertised with similar restrictions (36-month time restriction and $1,000 minimum deposit) she probably would have assumed during the first year that her money was earning a similar interest rate of $5\frac{1}{4}$ per cent. But this was not the case; the bonus certificate earned the passbook rate the first year of 4 3/4 per cent, and at maturity was to receive the $\frac{1}{2}$ per cent bonus, not compounded.

Regular Passbook Account. During Time Zone A (March 1, 1968 to December 31, 1969) the information disclosed in advertisements was inadequate. The advertisements from March 10, 1968 to July 13, 1969 disclosed only the annual percentage rate of 4.75 per cent along with a similar phrase as "easy in, easy out in any amount". There was no information concerning the determination of the balance the interest rate would apply to, such as the beginning, ending, average, or daily balance during the interest earning period. During the remainder of Time Zone A the annual percentage rate continued to be disclosed but accompanied with "daily interest" or "interest computed daily, day in to day out". A consumer might confuse these phrases to mean compounded daily. There was absolutely no statement referring to the compounding of earnings semi-annually. However, at the beginning of the last quarter of Zone A the institution began advertising quarterly compounding while continuing to compound semi-annually and the quarterly compounding did not become effective for the bonus certificate's companion passbook until January 1, 1970. This was not false advertising for new investors opening accounts this last quarter, for they would receive interest at the end of the quarter. However, this negates the institution's statement that existing account holders should look to the advertisements for information affecting their savings account's earnings. No advertisement gave any information concerning penalties that might be assessed upon the accounts. It would be incorrect to assume there were none; the Morse account was opened March 25, 1968, but did not begin to earn interest until April 1, 1968, a penalty of six days.

Time Zone B advertisements were more complete than during Time Zone A, but were judged inadequate in regard to the information disclosed. Zone B, which became effective January 1, 1970, did not advertise the increase in annual percentage rate to 5 per cent until January 25, but did disclose the rate in every advertisement following that date. However, the change to quarterly compounding, which became effective the same date was disclosed as early as September 28, 1969 in anticipation of this liberalization for compounding, yet mentioned only once (May 10, 1970) during Zone B. The advertisements disclosed that there were no minimum time or amount restrictions. The ads also disclosed that the accounts received "daily interest" (not daily compounding).

Time Zone C advertisements were more complete yet still judged inadequate in the information disclosed. Daily compounding first disclosed September 29 became effective on October 1, 1970 and continued to appear in every advertisement following that date. In several ads, the annual yield was also disclosed with the explanation that the account must be maintained and compounded daily

Table 4. Passbook information disclosed in advertisements.

Dates ads first appear	APR	Minimum time	Minimum amount	APY	Method to determine balance	Frequency of compounding	Dates earnings are payable	Penalties	Other restrictions
Zone A	4.75%					Semi-annual			
3/10/68	4.75	any time	any amt						
3/31	"	"	"						
4/ 7	"	"	"		INFORMATION				
5/ 5	"	"	"						
5/12	---	---	---						
7/ 7	4.75	---	---						
8/ 4	"	---	any amt						
9/15	"	---	"						
9/29	"	---	---						
11/10	"	---	---				NOT		
12/29	"	---	any amt						
2/ 2/69	"	---	"						
3/ 2	"	---	---						
4/ 6	"	---	any amt						
5/ 4	"	---	"						
5/11	"	---	"						
5/18	"	---	"						DISCLOSED
6/15	"	---	"						
6/22	"	---	"						
7/13	"	---	"		daily				
8/ 3	"	---	"		"				
9/ 7	"	any time	"		"				
9/28	"	---	"		---	4 times a yr			
11/ 2	"	---	---		daily	"			
11/ 9	"	---	---		"	"			
12/ 7	---	---	---		---	---			
12/29	---	---	---		---	---			

Table 4. (Contd.)

Dates ads first appear	APR	Minimum time	Minimum amount	APY	Method to determine balance	Frequency of compounding	Dates earnings are payable	Penalties	Other restrictions
Zone B	5.0%					Quarterly			
1/25/70	5.0	no min	no min	---	daily	---			
3/29	"	"	"	---	"	---			
5/ 3	"	"	"	---	"	---	INFORMATION		
5/10	"	"	"	---	"	quarterly			
5/17	"	"	"	---	"	---			
6/14	"	"	"	---	"	---			
6/21	"	"	"	---	"	---		NOT	
6/28	"	"	"	---	"	---			
7/ 5	"	"	"	---	---	---			
8/ 2	"	"	"	---	daily	---			
9/ 6	"	"	"	---	"	---			DISCLOSED
9/13	"	"	"	---	"	---			
9/29	"	"	"	---	---	daily			
Zone C	5.0%					Daily			
10/ 4/70	5.0	no min	no min	---	---	daily			
11/ 1	"	"	"	5.13	---	"	INFORMATION		
11/29	"	"	"	---	---	"			
3/ 7/71	"	"	"	5.13	---	"			
4/ 4	"	"	"	---	---	"		NOT	
5/ 2	"	---	---	5.13	---	"			
5/ 9	"	no min	no min	---	---	"			
6/ 6	"	"	"	---	---	"			DISCLOSED
6/27	"	"	"	---	---	"			

for a year. Zone C advertisements also disclosed that there were no minimum restrictions. However, the ads were unclear as to the method used to determine the balance the interest rate would apply to.

There were a few misleading phrases introduced in the advertisements. One such phrase, disclosed in the August 2, 1970 advertisement, stated "save 23%-18% on credit charges and 5% on the savings account." This statement might suggest that the institution pays 23 per cent on their accounts, while actually meaning that if customers save for purchases at 5 per cent rather than buying on credit at 18 per cent, this would result in a total savings of 23 per cent. The September 6, 1970 advertisement stated "your money earns continuously". This might suggest to the reader that deposits are compounded continuously while the institution actually compounds quarterly. The May 10, 1970 advertisement, shown in Exhibit 9, used both phrases "daily interest" and "quarterly interest" confusing two concepts.

Passbook-90 Account. The information disclosed in the advertisements concerning the passbook-90 account was also judged to be inadequate. From April 6, 1969 to September 7, 1969, each advertisement disclosed the annual percentage rate of 5 per cent and the minimum amount needed on deposit, initially $1,000, then $100. The minimum time of 90 days with a restriction of 90 days notice to withdraw the deposit with interest and the compounding of earnings quarterly were disclosed in all but one of the advertisements. The annual percentage yield was disclosed in several of the advertisements. However, the method of computing the balance to which the interest rate was applied was not disclosed. There was no information concerning the passbook-90 account from September 28, 1969 to March 29, 1970.

Beginning March 29, 1970 through the remainder of the advertisements, the

Own
May 10, 1970
EVERY DAY WORKING ACCOUNT
Save a car, save a trip, save a down payment for a new home...in our 5% guaranteed passbook—there are no minimums—you can withdraw anytime, and you earn from day in to day out. A Capitol Federal savings account sets you free from choosing between installment payments or doing without. Open your own insured safe passbook account at Capitol Federal today and start earning today. With regular deposits and quarterly interest you'll soon have that car, trip or house or whatever your thingis. And you'll have doneit your way.
PASSBOOK ACCOUNTS
5% 5¼%
DAILY INTEREST
No Minimums
Earn Day in to Day Out
$100 MINIMUM
Interest Paid On Balance
At End of Quarter
CERTIFICATES
6%
2-3 YEAR—$5,000 MIN.
$1,000 Minimum
Capitol Federal Savings
700 KANSAS AVE., TOPEKA
1201 TOPEKA BLVD.
2100 FAIRLAWN RD.
LAWRENCE
KANSAS CITY
INSURED
"The Most Trusted Name In Savings"

Exhibit 9

Table 5. Passbook-90 information disclosed in advertisements.

Dates ads first appear	APR	Minimum time	Minimum amount	APY	Method to determine balance	Frequency of compounding	Other restrictions
4/ 6/69	5.0%	90 days	$1,000	5.09	---	quarterly	90-day notice
5/ 4	"	"	"	---	---	"	"
5/11	"	"	"	5.09	---	"	"
5/18	"	"	"	---	---	"	"
6/15	"	"	"	---	---	"	"
6/22	"	"	"	---	---	"	"
7/13	"	"	100	---	---	"	"
8/ 3	"	"	"	---	---	---	"
9/ 7	"	---	"	---	---	quarterly	---
9/28	---	---	---	---	---	---	---
11/ 2	---	---	---	---	---	---	---
11/ 9	---	---	---	---	---	---	---
12/ 7	---	---	---	---	---	---	---
12/29	---	---	---	---	---	---	---
1/25/70	---	---	---	---	---	---	---
3/29	5.25	---	100	---	end of qrtr	---	---
5/ 3	"	---	"	---	"	---	---
5/10	"	---	"	---	"	---	---
5/17	"	---	"	---	"	---	---
6/14	"	---	"	---	"	---	---
6/21	"	---	"	---	"	---	---
6/28	"	---	"	---	"	---	---
7/ 5	"	---	---	---	"	---	---
8/ 2	"	---	100	---	"	---	---
9/ 6	"	---	"	---	"	---	---
9/13	"	---	"	---	"	---	---
9/29	"	---	---	---	"	daily	---
10/ 4	"	---	---	---	"	"	---
11/ 1	"	---	---	5.39	"	"	---
11/29	"	---	---	---	"	"	---
3/ 7/71	"	---	---	5.39	"	"	---
4/ 4	"	---	---	---	"	"	---
5/ 2	"	---	---	5.39	---	"	---
5/ 9	"	---	---	---	end of qrtr	"	---
6/ 6	"	---	---	---	"	"	---
6/27	"	---	---	---	"	"	---

new annual percentage rate of 5.25 per cent was always disclosed. A minimum amount of $100 on deposit was advertised through September 13, 1970; the remainder of the advertisements contained no information concerning minimum amounts needed on deposit. The minimum length of time for the deposit to remain on deposit was not disclosed from March 29, 1970 on. The frequency of compounding was not disclosed from March 29, 1970 to September 29, 1970 when daily compounding began to be advertised and continued thereafter. From March 29, 1970 on, the advertisements disclosed that the interest would be paid on the balance at the end of the quarter.

Certificates. The information disclosed in the advertisements concerning the various types of certificates was inadequate. The annual percentage rate, minimum time the deposit must remain on deposit and the minimum amount that must be on deposit were the only information clearly given in all of the advertisements observed. There was no information disclosed concerning the frequency of compounding or how the interest would be allowed to accumulate.

Summary. The advertisements of Capitol Federal Savings did not meet the standard of adequacy of information to be supplied. A customer concerned with acquiring the needed information to accurately compare various savings opportunities or verify his interest payments would discover the information supplied in the advertisements almost useless in assisting him. The annual percentage rate, frequency of compounding, method used to determine the balance the interest rate would apply to, time and amount restrictions, and any penalties given on the account must all be disclosed for each advertised account if easy access to this information is to be available to the concerned customer.

Table 6. Certificate information disclosed in advertisements.

Dates ads first appear	$1,000 certificate			$5,000 certificate		
	APR	Minimum time	Minimum amount	APR	Minimum time	Minimum amount
3/10/68	5.25	36 mo	$1,000	5.25	6 mo	$5,000
3/31	"	"	"	"	"	"
4/ 7	"	"	"	"	"	"
5/ 5	"	"	"	"	"	"
5/12	---	---	---	"	"	"
7/ 7	5.25	36 mo	1,000	"	"	"
8/ 4	"	"	"	"	"	"
9/15	"	"	"	"	"	"
9/29	"	"	"	"	"	"
11/10	"	"	"	"	"	"
12/29	"	"	"	"	"	"
2/ 2/69	"	"	"	"	"	"
3/ 2	"	"	"	"	"	"
4/ 6	---	---	---	"	"	"
5/ 4	---	---	---	"	"	"
5/11	---	---	---	"	"	"
5/18	---	---	---	"	"	"
6/15	---	---	---	"	"	"
6/22	---	---	---	"	"	"
7/13	---	---	---	"	"	"
8/ 3	---	---	---	"	"	"
9/ 7	---	---	---	"	"	"
9/28	5.25	6 mo	1,000	---	---	---
11/ 2	"	"	"	---	---	---
11/ 9	"	"	"	---	---	---
12/ 7	"	"	"	---	---	---
12/29	"	"	"	---	---	---
1/25/70	---	---	---	6.0	2 yr	---
3/29	5.75	1 yr	1,000	"	2-5 yr	5,000
5/ 3	"	"	"	"	"	"
5/10	"	"	"	"	"	"
5/17	"	"	"	"	"	"
6/14	"	"	"	"	"	"
6/21	"	"	"	"	"	"
6/28	"	"	"	"	"	"
7/ 5	"	"	"	"	"	"
8/ 2	"	"	"	"	"	"
9/ 6	"	"	"	"	"	"
9/13	"	"	"	"	"	"
9/29	"	"	"	"	"	"
10/ 4	"	"	"	"	"	"
11/ 1	"	"	"	"	"	"
11/29	"	"	"	"	"	"
3/ 7/71	"	"	"	"	"	"
4/ 4	---	---	---	---	---	---

Table 6. (Contd.)

Dates ads first appear	$1,000 certificate			$5,000 certificate		
	APR	Minimum time	Minimum amount	APR	Minimum time	Minimum amount
5/ 2	---	---	---	---	---	---
5/ 9	5.75	1-3 yr	$1,000	6.0	4-5 yr	$5,000
6/ 6	"	"	"	"	"	"
6/27	"	"	"	"	"	"

Correspondence of Interest Rates Increases on Bonus Certificates with Rate Increases on Other Accounts

The holder of a bonus certificate was "locked in" for three years if the ½ per cent bonus was to be received. However, the passbook rate paid on the bonus certificate could vary with institutional policy within the law. The following is a determination of whether the bonus certificate was "treated" as other accounts, that is, whether increases in interest rates and methods of compounding came as often for the bonus certificate as came for the other accounts.

However, because of the inadequacy of the advertised information, it was necessary to assume that the factors involved in computing earnings on certificates of deposit, such as frequency of compounding, method of interest accumulation (whether paid in cash or deposited in a regular passbook account), and any penalties, were the same for all certificates available at the Capitol Federal Savings and Loan Association. Therefore, the increases in interest rates were the only factors considered in determining the relative treatment of the various certificates.

There was only one increase in annual percentage rate that affected the bonus certificate: the annual percentage rate increased from 4.75 per cent to

5.0 per cent (the passbook rate increase) on January 1, 1970. The frequency of compounding was also increased from semi-annually to quarterly, but this was assumed to be effective for all accounts. The bonus certificate matured March 31, 1971 and from then on earned the passbook rate of 5 per cent plus the ½ per cent bonus totaling to a nominal annual rate of 5.5 per cent.

Although there were various minimum time restriction changes on deposits of other accounts, the first increase in annual percentage rate that occurred on any other account came the same date as the bonus certificate increase, January 1, 1970. The $5,000 certificates were then changed from 5.25 per cent per annum to 6.0 per cent per annum. On March 29, 1970, changes were made on two other accounts: the passbook-90 increased in annual percentage rate from 5.0 per cent to 5.25 per cent, the $1,000 certificates increased from 5.25 per cent to 5.75 per cent per annum. There were no other rate increases for any of the accounts advertised. Therefore, it was determined that the bonus certificate received treatment comparable to other accounts.

Determination of Optimum Earnings Available

Marjorie Morse had $2,000 to invest at Capitol Federal Savings and Loan Association for the forty-two month time period March 25, 1968 to October 1, 1971. She invested the $2,000 in the bonus certificate account for the entire period. During the forty-two months she earned the following:

Bonus Certificate

Time	Interest Earned
3/25/68 to 3/31/71	$291.28
3/31/71 (½% bonus)	30.00
4/ 1/71 to 10/1/71	55.00
Total Earned:	$376.28

If she had used other combinations of the highest possible interest rates during the forty-two month period, her earnings would have been less:

Time		Interest Earned
3/25/68 to 3/31/69	4.75% reg. passbook	$ 95.00
4/ 1/69 to 9/30/69	5 % passbook-90	50.00
10/ 1/69 to 3/31/70	5.25% 6 mo. cert.	52.50
4/ 1/71 to 10/ 1/71	5.75% 1 yr. cert.	172.50
Total Earned:		$370.00

The bonus certificate was the most profitable means available for a $2,000 investment at Capitol Federal Savings and Loan Association for the period March 25, 1968 to October 1, 1971.

The information disclosed in advertising is judged in terms of its usefulness to the consumer. In this case the consumer was a holder of a bonus certificate and a regular passbook. If she had been informed of alternatives and used other savings she had available for investment to supplement the $2,000, she could have taken advantage of the 6% - $5,000 savings accounts and received even higher earnings.

CONCLUSIONS AND RECOMMENDATIONS

The responsibility and necessity to be informed about the facts concerning savings programs have been placed upon the consumer, and yet the means to fulfill this responsibility are not available. The Topeka office of the Capitol Federal Savings and Loan Association insists that the significant information was supplied continuously in their advertising, so the advertisements were analyzed for adequacy of information. All of the advertisements analyzed were judged for adequacy of information based on established criteria; all were judged to be inadequate. A consumer could not accurately compare savings opportunities nor reconstruct the method used to compute earnings on a savings account with the information obtained from these advertisements. The attempts to obtain the information from the personnel of the institution proved futile and confusing.

It was not feasible for a customer to reconstruct the earnings paid with the information supplied on the bonus certificate and the passbook. The earnings paid on the bonus certificate No. 770206B and the passbook No. 270007 were verified only after obtaining information through personal correspondence with the Capitol Federal Savings and Loan Association.

Because of the inadequacy of the advertisements, the only tool available to compare the bonus certificate with other accounts was the annual percentage rate. The increases in interest rates revealed by the advertisements on the bonus certificate did correspond with increases in rates on other accounts. However, none of the 137 advertisements reviewed disclosed information about the bonus certificate.

The bonus certificate earned the optimum among available opportunities on a $2,000 investment during the period under analysis.

The careful saver needs access to the full facts not only to compare the various savings opportunities available to him, but also to verify whether the savings institution with which he contracts to save performs correctly. The proposed legislation of Truth in Savings allegedly would enable consumers to be adequately informed to exercise the responsibility placed upon them to invest prudently and to vigilantly observe whether the contract terms were met. However, neither the existing regulations on advertising of savings institutions nor those proposed in Truth in Savings require adequate disclosure of the information. Additional regulations must be made if advertisements are to be fully useful to the consumer.

It is recommended that: (1) additional regulations on advertising of savings institutions be incorporated in the proposed Truth in Savings Act to enable the consumer to be adequately informed, (2) an analysis be made of the cost-benefits of full disclosure under Truth in Savings for the consumer and for the savings industry and (3) savings institutions adopt the needed reforms voluntarily and thus avert the need for legislation.

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TRUTH IN SAVINGS -- A SAVINGS AND LOAN CASE STUDY

by

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The consumer's right to be informed has been well established. The consumer's need to be informed is implicit in the expectation of the regulatory authorities that consumers are responsible for noticing irregularities in their accounts. Yet, there remains great need for knowledge of and access to facts concerning the savings programs of savings institutions for the small investor and conscientious consumer to make accurate comparisons of investment opportunities, as well as to verify whether the savings institution with which he contracts to save performs correctly.

The objectives of this study were: (1) to verify the earnings paid to a bonus certificate and the companion passbook, (2) to determine the adequacy of the information disclosed in the advertisements of the savings and loan association issuing the certificate, (3) to determine whether the changes in methods used to compute earnings on the bonus certificate corresponded with changes made in computing earnings on other savings accounts advertised, (4) to determine whether the bonus certificate offered optimum earnings on $2,000 among savings plans available at the issuing institution.

The information on the bonus certificate and the passbook was insufficient for the customer or reseacher to reconstruct the earnings paid. Only after obtaining information through personal corresponsence with the issuing institution was reconstruction of the accounts feasible.

The savings institution claimed that all significant information had been supplied in their advertising, so the advertisements were analyzed for adequacy of information. All 164 advertisements appearing over the period were judged to be inadequate in the information disclosed. A consumer could not accurately compare savings opportunities nor reconstruct the method used to compute earnings on a savings account with the information obtained from these advertisements.