TRUTH IN SAVINGS
AN EVALUATION OF PASSBOOK SAVINGS LITERATURE

by

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ILLEGIBLE DOCUMENT

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

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INTRODUCTION

Promotional literature issued by savings institutions and media advertising constitute the major sources of information available to consumers when making decisions about where to place their savings.

An evaluation of the completeness and accuracy of the information in newspaper advertisements of savings institutions was the subject of a research project performed under contract with the Office of Consumer Affairs (Morse, 1975). This study pertains to the completeness and accuracy of information contained in the literature solicited from those same institutions.

Background

Full and meaningful disclosure of information concerning savings comprises one of the basic rights of the consumer, namely, the right to be informed: ". . . to be given the facts he needs to make an informed choice" (Kennedy, 1962). This is one of the four rights enumerated by President Kennedy in his Consumer Message to Congress on March 15, 1962. Fulfillment of this right to be informed is consistent with a basic assumption of a free-market system, namely, that the consumer be fully knowledgeable of the goods and services available from which purchases are selected. The objective of encouraging adequate information for consumers underlies such legislative proposals as Truth-in-Securities, Truth-in-Lending, Truth-in-Packaging, Truth-in-Insurance, Truth-in-Advertising, and Truth-in-Savings.

A consumer when depositing money with a financial institution enters into a contractual relationship. The consumer, as a party to the contract, has the right to know the details of the contractual agreement. If the consumer does not know the terms of the contract, he cannot be expected to know whether obligations relative to that contract are fulfilled. Passbook savings contracts are often devoid of adequate information. Virginia Knauer, Special Assistant to the President for Consumer Affairs observed that ". . . too often the consumer receives savings rhetoric rather than savings information," when searching for information (Knauer, 1973).

Morse and Fasse (1973) state that a consumer needs information at three important times in order to permit rational decision-making and to exercise full responsibility relative to the savings contract:

> 1. at the time the consumer is shopping for a savings institution in which to place his funds so he can select the one which best meets his needs and thereby fulfill his responsibility of rewarding that savings institution;
>
> 2. during the life of the contract so he can exercise his responsibility to take advantage of opportunities in the market as they arrive; and
>
> 3. when earnings are paid, to fulfill his responsibility to verify his account. (p. 159).

These are fully recognized in legislation currently before the 94th Congress (H.R. 14 and H.R. 6128), the Consumer Savings Disclosure Act, commonly referred to as Truth in Savings. 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, to validate performance under the contract and to have ready access to prevailing contract provisions. (Sec. 2, H.R. 14).

The information that should be available to consumers by the savings institution upon request, and at the time the funds are deposited is set forth in Section 5(a) of H.R. 14: 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) 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 by the yield, and any restrictions and the amount or method of determining the amount of penalties or charges imposed on the use of funds in any deposit.

Each time earnings are reported (or at least annually), the following would be disclosed according to Section 5(b): 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 purposes of computing the payment of earnings and making the report; 6) any other terms or conditions which increased or reduced the earnings payable under conditions as disclosed at the time the funds were deposited; 7) unless previously disclosed, an itemized record of deposits, withdrawals, charges and earnings and applicable dates.

The Federal Reserve Board would be authorized, under Section 5(c), to publish tables of periodic factors which reflect compounding and other information necessary to facilitate the individual consumer's ability to verify the computation of earnings on his savings deposits. Under Section 7, the FRB would be authorized to prescribe regulations insuring disclosure of information required by the Act in a manner understandable by the average savings depositor, and to proscribe the use of language which might be misleading or tend to obscure the meaning of required disclosures.

H.R. 14 and H.R. 6128 are but the latest in a series of legislative proposals to provide clear, concise, uniform, and adequate information to prospective savers. The first was introduced by Senator Hartke and Representative Roy in the 92nd Congress, and again in the 93rd and 94th Congress. These developments have been summarized by Granovsky (1974). Also significant was the inclusion of a Truth-in-Savings section in the Financial Institutions Act of 1973 (S. 2591) and of 1974 (S. 1267) by the Administration. The inclusion of a Truth-in-Savings section in the Act was a direct result of concern expressed by consumer leaders who had been invited to review the bill prior to its presentation in final form to Congress by President Nixon, at the special conference held by the U.S. Treasury in September of 1973. The consumer leaders observed that if the major purpose of the Financial Institutions Act was to remove restraints on financial institutions so to enable greater competition, the consumer could not be benefited meaningfully unless fully informed. Thus, they urged more effective Truth-in-Lending enforcement and the introduction of Truth-in-Savings (U.S. Treasury, 1973, pp. 20-21). Treasury officials did accept these suggestions and incorporated a new section (Sec. 106) for Truth-in-Savings in the Financial Institutions Act of 1973 (Wall Street Journal, Oct. 15, 1973).

Not all disclosures of S. 1052 were included, however. The Financial Institutions Act omitted such important disclosures as the annual percentage yield, the periodic percentage rate, and the balance to which the rate is applied. It also failed to require that the information be given before the initial deposit. And coverage of the Act was limited to institutions regulated by the Federal government. The Truth-in-Savings section (Sec. 107) of the Financial Institutions Act of 1974 has the same limitations. These omissions would seriously limit the consumer's ability to choose and manage his account, and would frustrate the verification of earnings. These differences were noted in a report published by the Department of Family Economics for distribution at the Consumer Federation of America Congress, a copy of which is included in Appendix A of the Granovsky thesis (1974).

The disclosures of H.R. 14 are essentially the same as those provided by S. 1052 of the 93rd Congress. These disclosures were used as the standard for full disclosure in evaluating the adequacy of information in the newspaper advertisement study (Morse, 1975). They were also used in this study for evaluating promotional materials.

Definitions

Many of the terms necessary for efficient communication about savings plans are not defined in existing regulations. This was acknowledged by General Counsel for the Federal Deposit Insurance Corporation, in an exchange of letters with Dr. Richard L.D. Morse:

> . . . 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 to Dr. Morse, April 30, 1971).

For the purpose of this study definitions for the basic terms were taken from H.R. 14. Other terms were defined as needed for this research. The definitions are:

Periodic percentage rate (PPR)

The periodic percentage rate is the "rate applied each period to the principal amount for that period to determine the amount of earnings for that period," [Sec. 3(7)]. It is also referred to as the PPR. The PPR is a form of unit pricing since it expresses the amount of earnings per $100 unit of principal per one unit (period) of time. The PPR is treated as the simple rate for the period.

Annual percentage rate (APR)

The annual percentage rate is the "periodic percentage rate multiplied by the number of periods in a calendar year of 365 days for all years including leap year," [Sec. 3(8)]. It is the annualized PPR. For example, the 1 1/2 percent per month periodic percentage rate commonly developed for open-end consumer credit is annualized to 18% APR. Although the APR is the most commonly quoted savings rate, it is not the rate used for computing earnings. The PPR is the applied rate. Only in the unique instance when the period is one year (annual compounding) are the APR and the PPR the same.

Compounding frequency

Compounding frequency is the number of periods in a calendar year that earnings are computed. These earnings are then added to the principal balance and if not withdrawn, form a new principal balance used in computing earnings for the next period. This process of including accrued earnings with the principal balance so that "interest is earned on interest," is <u>compounding</u>. The more frequent the compounding, the more opportunity earnings have to generate earnings, thereby increasing the yield for a given PPR (see APY below). Compounding frequency is often expressed by reference to the length of the period such as, semi-annually, quarterly, monthly, daily, hourly, or continuously. Continuous is the case of infinite compounding, when the period is so short that it approaches zero. It is a difficult concept for most persons to understand, but is a viable concept for mathematicians and presents no special problems when computers are used to compute earnings. H.R. 14 would require disclosure of a PPR representing the yield from the continuous rate at the end of one day. Compounding frequency is not explicitly defined in H.R. 14 but is implicit in the definitions of PPR and APR. It is defined for purposes of this study since it is a commonly used expression.

Annual percentage yield (APY)

The APY is a rate expressing the "amount of earnings per $100 of principal which accrues in one year as the result of the successive applications of the periodic percentage rate at the end of each period to the sum of the principal amount plus any earnings theretofore credited and not withdrawn during that year," [Sec. 3(9)]. The APY, like the APR, is not a functional rate; it is not used for earnings computations. It reflects the effect of compounding frequency and reveals length of the calendar year used for deriving the PPR from the quoted APR. A table showing the APY for selected APR's and frequencies of compounding for 360 and 365 day years is in Appendix A.

Length of year

H.R. 14 recognizes only 365 as the number of days in a year. However, present practices and existing regulations recognize variations in the length of year. Federal regulations authorize:

> . . . the use of 360 or 365 days (or 366 in a leap year) as the basis for computing interest on time or savings deposits, regardless of the actual number of days the funds earn interest. For example, in computing interest on a 295-day deposit, the bank could use the fraction 295/360 or 295/365 or 295/366 if a leap year. On a 360-day deposit the fraction could be 360/360 or 360/365 or 360/366 if a leap year. On a 365-day deposit, the fraction may exceed a value of 1, i.e. 365/360. Additionally, Section 329.3(e) authorizes 1 month or multiples thereof, to be figured as 30 days, or multiples thereof, for interest computation purposes. For example, for a deposit made February 1 for 1 month, the fraction could be 30/360 or 30/365 or 28/360 or 28/365, etc. (C.F.R., May 20, 1972).

This official authorization to tamper with the number of days accommodates financial institutions which wish to quote a higher APY for a given APR.

If a shortened year of 360 days is used for a given APR, a higher PPR can be used to compute earnings. For example, a PPR of .01388 multiplied by 360 days will give an APR of 5%, as will a PPR of .01369 multiplied by 365 days; and both result in the same APY of 5.13% if applied over 360 or 365 days, respectively. But if the higher PPR for 360 days is applied for the full 365 day year, an APY of 5.20% results. Some institutions refer to this dual year combination as a 360/365 day year, others as a 365/360 day year. Various combinations of APR, PPR, and APY for a 365/365 and a 365/360 day year are presented in Appendix B. Because the length of year is defined as having 365 days in proposed legislation, such stretching or shortening the length of year would not be possible.

Method of computing earnings

The words "method used" refers to how the principal balance to which the PPR is applied is determined. The principal balance eligible for earnings may be less than the actual amounts on deposit from time to time because not all funds on deposit may be recognized eligible for interest earnings. Conversely, the principal balance eligible for earnings may be greater than the amount on deposit, depending on how deposits and withdrawals are treated. Pinson (1970) listed five basic bookkeeping methods for determining the principal balance eligible for earnings. These were also used in this study:

1. Low Balance. Only the lowest balance on deposit during the interest period is eligible for earnings. This method tends to discourage deposits, as they do not qualify for earnings.

2. FIFO, applied to beginning balance. FIFO stands for first-in, first-out. Withdrawals, regardless of when they occur, are deducted first from the beginning balance for the period, and later from subsequent deposits. Therefore, interest is lost on money withdrawn from the beginning of the period rather than from the actual withdrawal date.

3. FIFO, applied to first deposits. Instead of being deducted from the beginning balance, withdrawals are deducted first from the first deposit made during the interest period, and later from subsequent deposits. The effect of this system is loss of interest on withdrawals from the time of the first and subsequent deposits rather than from the actual withdrawal date.

4. LIFO. LIFO stands for last-in, first-out. Instead of being deducted from the beginning balance or first deposit, withdrawals are deducted first from the last deposit made before the withdrawal, and later from previous deposits. Hence, interest is lost on withdrawals from the time of the last deposit rather than from the actual withdrawal date.

5. DIDO. DIDO stands for day-in to day-out. Another expression is DD-DW for day-of-deposit to day-of-withdrawal. This system pays interest for the actual number of days money remains on deposit. Eligibility for earnings begins on the day funds are deposited and ceases on the day of withdrawal.

Crediting frequency

Crediting is not defined in existing regulations or in H.R. 14. As used in this study, crediting is synonymous with posting, that is, the time when the financial institution enters the accrued earnings to the individual's account. Crediting frequency is the number of times in a calendar year earnings are posted. Earnings may be credited to an account on the last day, several days before the end of the period, or on the first day of the next period. Regardless of when they are credited, the amount credited is the amount of interest earned for the entire interest-paying period (e.g. month or quarter).

Crediting or posting are different from paid or payable. Paid means there has been a transfer of funds, as with an interest-payment check, or interest withdrawal. However, according to H.R. 14, payable means "the date on which or the period of time after which an absolute right to earnings exists, regardless of whether the earnings are actually paid" [H.R. 14 Sec. 3(6)]. Earnings therefore, may be payable (compounded) daily, but credited only quarterly. However, they may not be credited daily unless they were also payable daily.

Many expressions are in common usage which defy classification in these defined terms. For example, "daily interest" may have many different meanings. It could mean daily compounding, or that the DIDO method is used to compute earnings. Or it may mean that both are applicable. It may also mean that interest is payable each day, but paid at normal crediting times (such as the end of the quarter) or paid to date if the account is closed.

Grace days

Grace days are those days during which a consumer may place funds in his account and have these funds considered eligible for earnings computations as though they had been deposited on an earlier date, such as the first day of the month or period. Existing regulations permit member banks to pay interest "on savings deposits received during the first 10 calendar days of any calendar month at the applicable maximum rate prescribed by the regulation from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit, which ever shall first occur." [C.F.R., Title 12, 329.3(d)].

Dead days

Dead days are those days during which withdrawals and deposits do not affect the principal balance eligible for earnings. Existing regulations also allow payment of interest ". . . on savings deposits withdrawn during its last three business days of any calendar month ending a regular quarterly or semi-annual interest period at the applicable maximum rate prescribed . . . calculated to the end of such calendar month." [C.F.R., Title 12, 329.3(d)]. According to some institutions withdrawals made three days before the close of the interest paying period will not reduce earnings, nor will deposits made during the interval increase earnings.

Minimum time requirements

Minimum time requirements pertain to the minimum period that passbook deposits must remain in order to be eligible for interest. Institutions are not required by regulations to stipulate any time minimums on passbook savings (in contrast to certificates), but are allowed the option of reserving the right to require notice of not less than 30 days before any withdrawal is made (C.F.R., Title 12, 329.1).

Minimum transaction requirement

Minimum transaction requirements, as used in this study, refer to the practice requiring deposits to be of a certain size (minimum), to be considered eligible for interest earnings. It is also referred to as minimum deposit.

Minimum balance requirement

Minimum balance, as defined for this study, refers to a minimum account balance that must be maintained in the account if it is to remain eligible for interest earnings. This requirement may apply to all earnings on deposit or only those resulting from grace day provisions. Minimum balance is not defined in H.R. 14. Federal regulations do provide, however, that if ". . . an advertised rate is payable only on deposits that meet time or amount requirements, such requirements shall be clearly and conspicuously stated." [C.F.R., Title 12, 329.8(d)].

Charges and/or penalties

Charges, as defined for this study, are deductions for activity in the account. They are usually imposed to discourage excessive withdrawals or deposits from an account during a specified period of time. Penalties, as defined in this study are any other reductions in earnings payable under conditions imposed by the financial institution not otherwise disclosed.

Related Studies

This manuscript represents the seventh in a series of studies undertaken at Kansas State University regarding various aspects of passbook savings information: Pinson (1970), Osbaldiston and Morse (1971), Price (1972), Frey (1973), Granovsky (1974), and Morse (1975).

Abuses in savings advertisements were scrutinized by Morse through a sequence of correspondence with regulatory authorities, banking personnel, and the press from 1966 through 1969. He brought attention to the confusing array of terms and misleading information in savings advertisements. As a result, Federal regulatory authorities were persuaded to issue Regulation Q to curb these abuses. The fifty-six documents compiled by Morse (1971), with some exception, were reprinted in the Hearings on S. 1052 (pp. 173-217).

National attention was brought to the need for full disclosure by a Changing Times feature article based on Pinson's thesis (1970): "Maybe We Need 'truth in savings' Too" (Changing Times, 1971). The most frequently quoted revelation of the Pinson study was the multiplicity of methods that can and are used in figuring the balance eligible for earning interest, and that the interest earned varied 171% between the most and least favorable methods. She concluded: "Without full disclosure of information concerning the method of calculation and variables, it was not possible to compare yield at commercial financial institutions accurately." (Pinson, 1970, p. 11). She recommended that:

1) A survey of financial institutions offering savings programs should be conducted to ascertain the extent and variety of current methods of calculating interest and the variables employed which affect gross yield to the saver.

2) A survey be conducted of consumer knowledge about savings programs and their understanding of the significance of the many systems offered them.

3) A study to investigate the development of a standardized form of terminology relating to savings programs to describe in lucid language all the characteristics of savings programs.

4) A study into the possibility of developing full standardized disclosure guidelines for use in advertising, verbal communication, and printed material including all passbooks, certificates, receipts, or other contracts.

5) Consider legislation comparable to "Truth in Lending" for savings programs to be known as "Truth in Savings." (ibid., pp. 49-50).

Osbaldiston analyzed the quality of advertisements of fourteen savings institutions appearing in major national newspapers, and graded the ads according to the criteria established. She concluded that the ads were not sufficiently informative and the size of ad was not a barrier to better disclosure. Some of the better ads were among the smallest in size (Osbaldiston and Morse, 1971).

Price (1972) studied the ads of one savings and loan institution in an effort to ascertain if all the information needed to have sufficient understanding for the consumer to manage a savings certificate account was provided. The information on the certificate was insufficient and when the savings institution was questioned, it claimed that all the significant information had been supplied in their advertisements. Advertisements appearing over a 42 month period were analyzed, and none of the 164 advertisements was judged adequate in information disclosed.

The studies by Frey and Granovsky related to the validity of account reports. Frey interviewed consumers to learn whether account-holders questioned the accuracy of earnings paid on accounts. Most consumers had sufficient faith in their financial institution not to check the accuracy of their accounts (Frey, 1973). Granovsky obtained account activity and account descriptions from 156 consumers and recalculated the earnings paid according to the contract terms. Only 15% of the accounts were correct to the penny, and 34% were within a 2¢ tolerance error limit. Also, when the earnings paid were compared with what would have been paid under the favorable DIDO-with daily compounding method, two-thirds of the accounts could have earned more than they were actually paid (Granovsky, 1974).

A nationwide study of newspaper advertisements was made possible by a mini-grant from the Office of Consumer Affairs, U.S. Department of Health, Education and Welfare (Morse, 1975). Savings advertisements appearing in the major morning newspaper from each of the 41 cities in which a regulatory agency has a major or branch office, for the three-week period of September 23 to October 14, 1974, were clipped and analyzed for accuracy and informativeness. These 1508 advertisements represented 510 thrift institutions. Each advertisement was evaluated for adequacy of information disclosed, compliance with current regulations, and the percentage of space devoted to factual information. An ad was judged to be fully informative if it supplied all the facts needed for intelligent selection and use of a passbook savings account, as set forth in H.R. 14 and S. 1052. None met this standard. Factual savings information comprised only 9% of the total advertising space, and one-fourth of the ads used less than 1% of the space for such information. The 510 institutions spent approximately $2.3 million in newspaper advertising during this period, of which only $207,207 was for space used to give factual savings information.

In conjunction with the analysis of savings advertisements, and as a pilot study, literature was requested from the largest advertisers in twelve of the forty-one cities. The literature was analyzed for completeness. It was judged to be more informative than the newspaper advertisements. However, none of the literature of any institution met the standard of full disclosure (Morse, 1975, p. 9). The study of savings literature was admittedly incomplete, as it included only twenty-nine of the 510 institutions included in the advertisement analysis. A follow-up study utilizing literature requested of all 510 financial institutions was recommended. In keeping with this recommendation, this study was undertaken.

THIS BOOK CONTAINS NUMEROUS PAGES THAT HAVE INK SPLOTCHES IN THE MIDDLE OF THE TEXT. THIS IS AS RECEIVED FROM CUSTOMER.

THESE ARE THE BEST IMAGES AVAILABLE.

OBJECTIVES

The major objective of this study was to assess the informativeness of brochures and other promotional materials distributed by savings institutions to prospective savers. Specific objectives were:

1. to measure the frequency that brochures incorporated key elements of information needed by consumers to make accurate comparisons of savings options and to manage their accounts informedly;

2. to assess the proliferation of nomenclature used in passbook literature;

3. to seek clarification of ambiguous terms and conditions having the potential for confusion and misinterpretation; and,

4. to examine the above characteristics in relation to the type of institution and regional location within the continental United States.

PROCEDURES

Source of Data

The source of data for this study was the 510 institutions whose newspaper advertisements had been analyzed in the previous study (Morse, 1975). Letters were mailed to all institutions, with the exception of the twenty-nine institutions that had responded to a similar request during the previous study. Each was asked to supply information made available to its customers explaining passbook savings accounts. Text of the letter was as follows:

> I recently noticed your advertisement of savings opportunities available at your institution.
>
> Could you please send me any information made available to potential savers describing your passbook savings accounts?
>
> I will look forward to hearing from you.

Addresses for most institutions were obtained from the respective advertisements; others were obtained from telephone directories.

Coding and Editing

Criteria for evaluating the adequacy of information provided in the brochures were based on the standards for full disclosure contained in the Consumer Savings Disclosure Act [H.R. 14, Section 5 (a) and (b)]. The code sheet was based on the one used in the advertisement study. It was modified to provide for the type of information presented in promotional materials and to remedy deficiencies discovered during the advertising study. Further modifications were made as a result of its use with a sub-sample of thirty institutions. The finished code sheet is provided as Exhibit 1.

One modification made allowed not only for recording the disclosures made, but also the terms and phrases used to express each disclosure. Thus it was possible to document the proliferation of terms used to convey the same variable. The procedure was used for variables 7,9,11,15, 17,20,22,24,26,29,31,32,33,34 (See Code Sheet, Exhibit 1). Another change was to add a code to tag those brochures that contained conflicting information. For example, one institution in the sub-sample stated both "open an account in any amount" and "$5 minimum opening balance."

A team of four persons was trained to analyze the savings brochures. A set of instructions was prepared for the training session outlining the purpose of the study and clarifying definitions of variables as defined for the study. A copy of these instructions is in Appendix E. Examples that had caused confusion in coding the sub-sample were used to illustrate the coding procedure and attune coders to problems they might face. Coders were instructed to add any new words or phrases appearing in the savings brochures to the codebook, so that a glossary of every phrase or word used in the brochures could be compiled. A major concern was the tendency of coders, because of their advanced knowledge, to assume non-disclosed facts. For example, because the APY for an APR of 5.25% could be 5.38%, 5.39% or 5.46% (as shown in Appendix A) depending upon whether interest is compounded daily or continuously with a 360 or 365 day year, coders had the tendency to assume a frequency of compounding or year's length consistent with the APR and APY given even though such facts were not disclosed. Therefore, it was stressed that coders were to code

Exhibit 1

Code Sheet

Data	Column		Variable
__	(1)	001.	Coder
__	(2)	002.	Checker
__ __	(3-4)	003.	Region
__ __ __	(5-7)	004.	Institution Number
__	(8)	005.	Type of Institution
__.__ __ %	(9-11)	006.	APR
__ __	(12-13)	007.	APR Nomenclature
__.__ __ __ %	(14-17)	008.	APY
__ __	(18-19)	009.	APY Nomenclature
__	(20)	010.	PPR
__ __	(21-22)	011.	PPR Nomenclature
__	(23)	012.	Dollar Yield
__	(24)	013.	Minimum Balance That Must Be Held to End of Qtr.
__	(25)	014.	Minimum Deposit to Open an Account
__ __	(26-27)	015.	Minimum Deposit Nomenclature
__	(28)	016.	Minimum Length of Time Deposit Must Remain
__ __	(29-30)	017.	Minimum Length Nomenclature
__	(31)	018.	Length of Year Used in Computing Interest
__	(32)	019.	Method Used to Determine Balance
__ __	(33-34)	020.	Method Used Nomenclature
__	(35)	021.	Compounding Frequency
__ __	(36-37)	022.	Compounding Frequency Nomenclature
__	(38)	023.	Computing Frequency
__ __	(39-40)	024.	Computing Frequency Nomenclature
__	(41)	025.	Crediting Frequency
__ __	(42-43)	026.	Crediting Frequency Nomenclature
__ __	(44-45)	027.	Dates When Earnings Are Routinely Paid or Cred.
__	(46)	028.	Charges Against any Deposits
__ __	(47-48)	029.	Charges Nomenclature
__	(49)	030.	Amount Required for Subsequent Deposits
__ __	(50-51)	031.	Amount of Subsequent Deposits Nomenclature
__ __	(52-53)	032.	Withdrawal Penalty Nomenclature
__ __	(54-55)	033.	Grace Days Nomenclature
__ __	(56-57)	034.	Dead Days Nomenclature
__ __	(58-59)	035.	Insurance
__	(60)	036.	Gifts (presented or not mentioned)
__	(61)	037.	Internal Consistency and Accuracy of APR--APY
__	(62)	038.	Type of Response

information only as it was presented and not to speculate as to the practice of the institution. All coding performed by the team was then checked for accuracy and uniformity by the researcher.

Letters were written to several institutions to seek clarification of phrases the researcher found to be particularly ambiguous. Also four of the institutions which offered more than one passbook account were asked to explain the substantive differences. This correspondence will be discussed as part of the Discussion section of this paper.

Analysis

Information was transferred from the code sheet to computer cards. The Statistical Package for Social Sciences (SPSS) was used to prepare statistical summaries of the data, calculate measures of central tendency, and prepare and measure relationships between variables.

RESULTS

Brochures were classified by the Federal Reserve District in which the institutions were located. They were also classified by whether the institution was a commercial bank, mutual savings bank, or a savings and loan association, as well as by the type of their response. The information disclosed in the brochure was compared to the standards for full disclosure enumerated in the proposed Consumer Savings Disclosure Act. A glossary was compiled of variations in nomenclature used for expressing each of the variables essential for communicating about passbook savings accounts. The data are presented in this section and discussed in the following section.

Responses

A total of 357 useable responses were received from the 510 institutions contacted. This is a 70% return. Initially 363 replies were received, but five could not be utilized for the following reasons: one had no brochure available at that time; two sent information about other savings accounts, but nothing about their passbook account; a Tennessee institution responded that their accounts were available to state residents only, so no information was sent; and the fifth made reference to a brochure in their letter, but failed to send it.

The distribution of responses by district and type of institution is presented in Table 1. Savings banks were represented in those five districts in which they are authorized by law. S&L's were represented in

Table 1. Number and percent of responses from institutions, by Federal Reserve District and type of institution.

Federal Reserve District	Institutions											
	All			Commercial banks			Savings banks			S&L's		
	Requests	Responses		Requests	Responses		Requests	Responses		Requests	Responses	
	n	n	%	n	n	%	n	n	%	n	n	%
All	510	357	70	128	82	64	41	34	83	301	241	80
1. Boston	11	10	91	3	3	100	7	7	100	1	0	-
2. N.Y.	32	21	66	7	2	30	17	14	82	8	5	63
3. Phila.	13	9	69	6	4	66	4	3	75	3	2	66
4. Cleveland	39	27	69	11	7	64	2	1	50	26	19	73
5. Richmond	69	49	71	16	10	63	2	1	50	51	38	75
6. Atlanta	79	49	62	19	14	74	0	0	-	60	35	58
7. Chicago	38	34	89	14	12	86	0	0	-	24	22	92
8. St. Louis	50	32	63	16	9	56	0	0	-	34	23	68
9. Minn.	21	13	62	7	4	57	1	1	100	13	8	62
10. K.C.	49	44	90	12	8	66	0	0	-	37	36	97
11. Dallas	38	21	55	11	5	45	0	0	-	27	16	59
12. San Fr.	71	48	68	8	4	50	7	7	100	56	37	66

all but the Boston district, and commercial banks were represented in all districts. The percent of response ranged from 55% in the Dallas district to 91% from the Boston district. A greater response was received from S&L's and savings banks than from commercial banks in all districts but Atlanta. Approximately 80% of the S&L's and savings banks responded, but only 64% of the commercial banks.

Type of response

The responses ranged from a simple sheet of paper to elaborate charts and illustrations. Nearly half (47%) were accompanied by a personal letter, but over one-third (38%) enclosed no letter at all. Savings banks and S&L's more frequently included a personal note than commercial banks. The frequency of simple brochures, however, was somewhat evenly distributed among all types of institutions. The type of response for each type of institution is presented in Table 2.

Table 2. Type of response, by type of institution.

Type of response		Savings institutions		
	All n=357	Commercial banks n=82	Savings banks n=34	S&L's n=241
		[percent]		
All	100	100	100	100
Elaborate brochure, plus	17	12	20	17
personal letter	8	1	9	11
form letter	1	0	2	.
no letter	8	11	9	6
Simple brochure, plus	74	76	71	77
personal letter	39	22	30	50
form letter	5	4	9	5
no letter	30	50	32	22
Letter only	9	12	9	7

There was considerable variation in the type of response from institutions by the districts (See Table 3). More institutions located within the Kansas City district, perhaps because of their proximity to the research, sent more elaborate brochures and personal letters. Institutions in the Philadelphia district frequently (78%) sent only a brochure, with no accompanying letter, while those in the Minneapolis, Kansas City, and San Francisco districts more frequently included a personalized letter.

Information Disclosed

The frequency with which information considered essential for intelligent selection of passbook savings plans as disclosed or not disclosed in savings literature is summarized in Table 4.

Annual percentage rate (APR)

Nearly all (98%) of the savings institutions quoted the APR for their passbook accounts. All S&L's (100%) provided the APR compared to 94% of the commercial banks and 95% of the savings banks. Banks most frequently quoted an APR of 5%, while savings banks and S&L's most frequently quoted 5.25%. These APR quotations were in line with maximum legal rates. Institutions paying more were those not governed by Federal regulations.

Annual percentage yield (APY)

Less than two-thirds of all institutions (62%) disclosed the APY for their accounts. Only 18% of the commercial banks, in contrast to almost three-fourths (74%) of the S&L's and 78% of the savings banks, provided their prospective customers with this shopping information. S&L's and savings banks are permitted to pay higher rates on their accounts, and

Table 3. Type of response, by Federal Reserve District.

Type of response	Region												
	All	Bost.	N.Y.	Phil.	Clev.	Rich.	Atl.	Chic.	St.L.	Mpls.	K.C.	Dal.	S.Fr.
Number	357	10	21	9	27	49	49	34	31	13	45	21	48
	[percent]												
All types	100	100	100	100	100	100	100	100	100	100	100	100	100
Elaborate brochure, plus	17	20	5	22	18	2	10	27	16	31	33	5	23
personal letter	8	0	0	0	11	0	8	9	10	16	22	0	10
form letter	1	10	0	0	0	0	0	0	3	0	2	0	0
no letter	8	10	5	22	7	2	2	18	3	15	9	5	13
Simple brochure, plus	74	70	86	78	71	82	80	70	61	69	63	90	75
personal letter	39	30	29	11	30	35	39	38	35	46	40	57	56
form letter	5	20	0	11	4	8	8	0	3	0	7	5	2
no letter	30	20	57	56	37	39	33	32	23	23	16	28	17
Letter only	9	10	9	0	11	16	10	3	23	0	4	5	2

Table 4. Information disclosed about passbook savings, by type of institution.

Information	All	Savings institutions: Commercial banks	Savings institutions: Savings banks	Savings institutions: S&L's
	n=357	n=82	n=34	n=241
	[percent]			
Annual percentage rate (APR)	100	100	100	100
Not disclosed	2	6	6	0
Disclosed	98	94	94	100
4.00%	1	5	0	0
4.50%	2	8	3	0
5.00%	20	77	0	3
5.24%	.	0	0	.
5.25%	69	4	91	89
5.30%	.	0	0	.
6.00%	5	0	0	7
7.00%	1	0	0	1
Annual percentage yield (APY)	100	100	100	100
Not disclosed	38	82	22	26
Disclosed	62	18	78	74
4.080%	.	1	0	0
4.577%	.	1	0	0
5.090%	.	1	0	.
5.094%	.	1	0	.
5.095%	.	1	0	0
5.126%	.	1	0	0
5.130%	3	10	0	1
5.200%	.	1	0	.
5.350%	3	0	0	4
5.380%	1	0	0	1
5.389%	.	0	0	.
5.390%	34	0	3	49
5.460%	2	0	6	1
5.467%	1	0	0	1
5.470%	14	1	69	12
5.520%	.	0	0	.
6.140%	2	0	0	3
6.180%	.	0	0	.
6.270%	1	0	0	2
7.250%	.	0	0	.

Table 4. Continued.

Information	All	Commercial banks	Savings banks	S&L's
	Savings institutions			
	n=357	n=82	n=34	n=241
	[percent]			
Periodic percentage rate	100	100	100	100
Not disclosed	100	100	100	100
Disclosed	0	0	0	0
Year's length	100	100	100	100
Not disclosed	98	100	97	97
Disclosed	2	0	3	3
365	1	0	3	1
365/360	1	0	0	2
Method of computing earnings	100	100	100	100
Not disclosed	44	67	62	34
Disclosed	56	33	38	66
Low Balance	1	4	0	0
FIFO unspecif	0	1	0	0
LIFO	.	0	0	.
DIDO	54	27	35	66
Other	1	1	3	0
Compounding frequency	100	100	100	100
Not disclosed	17	22	14	16
Disclosed	83	78	86	84
Continuously	11	2	18	12
Daily	55	34	65	60
Monthly	.	1	0	.
Quarterly	15	31	3	11
Semi-annually	1	5	0	0
Annually	1	5	0	0
Crediting frequency	100	100	100	100
Not disclosed	36	34	41	37
Disclosed	64	66	59	63
Daily	1	1	0	1
Monthly	5	4	18	3
Quarterly	54	46	41	59
Semi-annually	3	11	0	1
Annually	1	4	0	0

Table 4. Continued.

Information	All	Commercial banks	Savings banks	S&L's
	Savings institutions			
	n=357	n=82	n=34	n=241
	[percent]			
Minimum transaction requirement	100	100	100	100
Not disclosed	54	55	69	50
Disclosed	46	45	31	50
Minimum amount stated	21	30	19	18
No minimum amount	8	9	6	9
"minimum" ambiguous	17	6	6	22
Discrepancy	.	0	0	1
Minimum balance requirement	100	100	100	100
Not disclosed	58	68	53	55
Disclosed	42	32	47	45
$1.00	2	6	6	.
$3.00	.	0	3	0
$5.00	5	3	8	5
$10.00	10	6	11	11
No minimum required	3	1	8	3
"minimum" ambiguous	16	6	6	21
Other	6	10	5	5
Minimum time requirement	100	100	100	100
Not disclosed	82	85	88	80
Disclosed	18	15	12	20
Minimum stated	4	6	6	3
No minimum	14	9	6	17
Grace days	100	100	100	100
Not disclosed	74	83	62	73
Disclosed	26	17	38	27
10 days per month	14	17	25	12
10 days per month, if left to period's end	10	0	9	13
First 10 days of period	.	0	.	0
Others	2	0	3	2
No longer observed	.	0	0	.

Table 4. Continued.

Information	All	Savings institutions: Commercial banks	Savings banks	S&L's
	n=357	n=82	n=34	n=241
		[percent]		
Dead days	100	100	100	100
Not disclosed	98	100	85	99
Disclosed	2	0	15	1
Charges against deposits	100	100	100	100
Not disclosed	96	93	97	97
Disclosed	4	7	3	3
Charges	3	7	3	2
No charges	1	0	0	1
Withdrawal penalties	100	100	100	100
Not disclosed	50	43	78	48
Disclosed	50	57	22	52.
Penalty	3	11	8	2
No penalty	47	46	14	50
Insurance	100	100	100	100
Not disclosed	10	23	12	6
Disclosed	90	77	88	94
FDIC	24	74	65	2
FSLIC	56	0	0	82
Maryland Savings-Share Co.	3	0	0	4
Thrift Guaranty Corp.	1	0	0	1
By agency of U.S. Government	2	0	0	3
Other insurance	4	3.	23	2
Gifts	100	100	100	100
Gifts not offered	93	95	97	91
Gifts offered	7	5	3	9

. Means less than .5% but greater than 0%.

therefore, have a higher APY to disclose than commercial banks. The most frequently quoted APY was 5.13% by commercial banks, 5.47% by savings banks and 5.39% by S&L's. The relationship between the quoted APR's and APY's will be discussed in the Discussion along with other factors bearing on their relationship.

Periodic percentage rate (PPR)

None of the 357 institutions disclosed the periodic percentage rate, which is the rate actually applied when computing earnings.

Year's length

Only eight institutions disclosed the length of year used in computing earnings. One savings bank and two S&L's disclosed that earnings were based on a 365 day year. They were from the San Francisco and Kansas City districts. Five S&L's noted use of a 365/360 day year. Three were located in the Richmond district, one in the Cleveland district, and one in the St. Louis district. No commercial banks made reference to the length of year used. Although savings banks frequently quoted APY's reflecting use of the 365/360 day year, none disclosed its use. The relationship of year's length in relation to APY will be discussed in the Discussion.

Method of computing earnings

Almost half (44%) failed to disclose the method used to compute earnings. S&L's disclosed the method used much more frequently than did commercial or savings banks. Sixty-six percent of the S&L's disclosed the method used, compared to 33% of the commercial banks and 38% of the savings banks.

All but six of those disclosing the method used the DIDO (Day-in to Day-out) method. One S&L in the Kansas City District used the LIFO (Last-in First-out) method. Three commercial banks from the Cleveland and Richmond Districts used the Low Balance method. And the two other exceptions were a California savings bank and a Florida commercial bank which used methods that did not fit within these common classifications. One used the average balance of $100 or more per calendar quarter to compute earnings, the other computed earnings for full months on the part of the balance remaining on deposit until the close of the quarter.

Compounding frequency

A large portion (83%) of the institutions disclosed in their brochures the compounding frequency. Daily was the frequency most often reported. Very few (2%) institutions reported compounding frequencies less than quarterly.

Commercial banks disclosed the frequency of compounding less often than did savings banks and S&L's. Commercial banks more frequently used compounding frequencies that are less advantageous to their customers. Over one-third (41%) of the commercial banks compounded quarterly, semi-annually or annually, compared to 11% of the S&L's and 3% of the savings banks.

Disclosure of the APY was related to the frequency of compounding. Only 38% of those compounding quarterly disclosed the APY in contrast to 85% of those compounding continuously and 75% of those compounding daily. The relationship of compounding to the APR and APY will be discussed in the Discussion section.

Crediting frequency

Approximately one-third (36%) of the institutions failed to inform their customers about the frequency that earnings were credited. Savings banks (41%) most frequently failed to disclose when earnings were credited. More than one-third of the commercial banks and S&L's also did not present this information in their brochures.

Quarterly crediting was the predominant practice among those institutions disclosing crediting frequency. A few institutions offered monthly crediting and monthly statements, especially those offering "passcard" accounts with computerized transactions.

Minimum transaction size requirement

More than half (54%) did not state whether a minimum deposit was required for opening an account. The implication is that there was none. A small percentage (8%) clearly stated "no minimum deposit" necessary to open an account. Nearly half of those that did disclose or make reference to a minimum did so in such a manner that it was not easy to distinguish whether the minimum was required to open an account or to receive earnings. Savings banks disclosed their policies concerning minimum deposits slightly more frequently than did commercial banks or S&L's. Commercial banks most frequently required a minimum deposit.

Minimum balance requirement

One-fourth (23%) required some type of minimum balance to remain on deposit until the period end in order to receive earnings. The most frequently required balance was $10.00. Only 3% specifically stated no minimum balance was required. Savings banks and S&L's most frequently required minimum balances. S&L's minimum requirements were most frequently considered to be ambiguous.

Minimum length

Whether or not a minimum time length was required for passbook accounts was generally not mentioned. Only 18% made reference to the length of time deposits must remain, and most of these (14%) were to clarify that no time limit was required. However, four institutions that claimed no minimum length requirement, also stipulated that funds withdrawn before the end of the period were not eligible for interest.

Grace days

Nearly three-fourths (74%) made no reference to grace days. There may have been none to report; but only one institution actually stated: "grace days no longer observed." The most frequent option for grace days disclosed was ten days per month. Some, especially savings banks and S&L's, added the stipulation that grace days would be awarded only to deposits left to the end of the period. Few (17%) commercial banks disclosed the use of grace days. Grace days were most frequently offered by savings banks (38%).

Dead days

Only seven (2%) acknowledged the use of dead days. They were located mainly in the N.Y. district. Either the practice is not widely used, or it is not publicly acknowledged. A San Antonio S&L Vice President explained that earnings on their accounts were figured on the last business day before the last Saturday of the period. When asked if a saver closing his account after earnings had been calculated could receive interest to that date or to the end of the period, his response was: "If the account was under $2000 we would probably pay interest through the end of the period for the sake of good-will." (Conversation, July 22, 1975). Yet, there was no mention of this privilege in their brochure.

Charges against deposits

Very few (4%) disclosed explicitly the presence or absence of any charges. Only 1% specifically stated that there were no charges. Commercial banks most frequently (7%) disclosed information about charges, and only 3% of the savings banks and S&L's were informative in this regard.

Withdrawal penalties

Only 3% of the institutions disclosed penalties in their brochures. Fifty percent announced "no penalties," and another 50% implied no penalties by failure to mention any. Savings banks more frequently ignored the subject of withdrawal penalties; over three-fourths (78%) did not disclose any information. Slightly more than half of the commercial banks (57%) and S&L's (52%) made reference to their practices. Commercial banks more frequently had explicit penalties.

The penalties that were disclosed were of two types: Charges for excessive withdrawals, and sacrifice of interest for the entire period for amounts withdrawn during the period.

Insurance

Ten percent of the brochures made no reference to the insurance coverage of the savings account. Over one-fifth of the banks (22%) and one-tenth (11%) of the savings banks failed to make this disclosure. Nine institutions gave very vague references to the type of insurance coverage. Three said only "insured by an agency of the U.S. government," and six others simply stated: "insured up to $40,000."

Gifts

Information about gifts was not included in the brochures. Only 7% of the brochures included any information about premiums offered to savings customers.

Nomenclature

The second objective of this study was to assess the variety and multiplicity of nomenclature used in the passbook literature. As the data were coded, a glossary of the nomenclature used to express each variable was compiled. Tables 5-7 present the variety of terms used in the brochures and distribution of their usage by types of institutions.

Annual percentage rate (APR)

Of the 281 institutions labeling the APR, only one institution used the term "Annual Percentage Rate." This is the terminology which would be required by the Consumer Savings Disclosure Act (H.R. 14). The other 280 institutions used twenty-seven different expressions of the annual percentage rate (See Table 5). The most frequent expression was "per annum" (18%), followed by the "Annual Rate" (10%), "Interest" (8%), "Rate" (8%), and "Interest Rate" (8%). A majority (77%) of the institutions however, did not label the percentage figure in any fashion, leaving the consumer to deduce for himself whether it was the APR. Over one-third of the commercial banks (36%) did not label the APR, but there was no confusion because they failed to disclose the APY.

Table 5. Annual percentage rate nomenclature used, by type of institution.

Nomenclature used	Savings institutions All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	77	30	2	44
Nomenclature used	280	52	32	196
1. Annual percentage rate	1	0	0	1
2. Annual interest rate	13	2	1	10
3. Annual rate	36	4	4	28
4. Interest per annum	4	3	0	1
5. Interest	30	14	3	13
6. State annual rate	1	0	0	1
7. Annual interest	9	5	3	1
8. Base interest	1	0	0	1
9. Per year	17	2	0	15
10. A year	8	0	2	6
11. Rate	29	3	3	23
12. Interest rate	28	8	4	16
13. Daily interest per year	1	1	0	0
14. Per annum	65	6	4	55
15. Current rate	5	0	0	5
16. Daily interest	6	1	1	4
17. Interest-rate per year	4	0	0	4
18. Annually	1	0	0	1
19. Current annual rate	5	1	0	4
20. Rate of interest	3	2	1	0
21. Annual dividend	2	0	0	2
22. Dividends	5	0	3	2
23. Current dividends	1	0	0	1
24. Dividend rate	1	0	0	1
25. Basic rate	1	0	0	1
26. Interest dividend	1	0	1	0
27. Anticipated annual rate	1	0	1	0
28. Anticipated dividend	1	0	1	0

Annual percentage yield (APY)

The most frequent label given by the 144 institutions labeling the APY was "Annual Yield." This is comparable to Annual Percentage Yield, the name proposed in Truth-in-Savings legislation. "Yield" was used frequently by all types of institutions, but most frequently by S&L's. The few banks using any nomenclature to describe the APY most frequently used "Effective Annual Yield" (7%). The term "Annual Yield" was most popular with savings banks and S&L's. The proposed term "Annual Percentage Yield" was used by only one S&L. The terminology used to express APY is summarized in Table 6.

Periodic percentage rate (PPR)

No institution quoted a periodic percentage rate. Forty-one institutions did, however, make reference to the period used for interest computation. The most frequently used term was "Daily Interest" (10%) followed by "Daily Earnings," and "Instant Daily Interest" (See Table 7). S&L's most frequently made a vague reference to the PPR followed by commercial banks.

Method of computing earnings

Twenty-nine different expressions were used by 234 institutions to describe the method used to determine the balance to which the PPR is applied for the computation of earnings. These were grouped into six categories: 1) DIDO (Day-in to Day-out), 2) Low Balance, 3) LIFO (Last-in, First-out), 4) Day of receipt, 5) Quarter's end, and 6) Others. The most frequent expression was "Earn from date of deposit to date of withdrawal" (28%). Also popular were "Day of deposit to day of withdrawal," and "Day in to Day out" (See Table 8).

Table 6. Annual percentage yield nomenclature used, by type of institution.

Nomenclature used	All	Savings institutions: Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	144	66	6	72
Nomenclature used	213	16	28	169
1. Annual percentage yield	1	0	0	1
2. Annual yield	81	1	9	71
3. Effective annual yield	48	7	9	32
4. Effective annual rate	10	0	1	9
5. Yield per annum	4	0	0	4
6. Effective interest rate	1	0	0	1
7. Average annual yield	1	0	0	1
8. Annual effective yield	4	0	1	3
9. Yield	23	2	3	18
10. Effective annual return	3	0	0	3
11. Annual interest	1	0	0	1
12. Compound rate	3	2	0	1
13. Effective yield	5	0	1	4
14. Annual return	1	0	0	1
15. Annual effective rate	2	1	0	1
16. Annual interest yield	2	1	0	1
17. Per year	1	1	0	0
18. Annual rate	2	0	0	2
19. Rate per annum	1	0	0	1
20. Annual anticipated interest rate	1	0	0	1
21. Effective rate	3	0	1	2
22. Compound annual yield	3	0	0	3
23. Earns annually	3	1	1	1
24. Effective annual compound rate	1	0	0	1
25. Earn annually	1	0	1	0
26. Earning	4	0	1	3
27. Annual compound rate	2	0	0	2
28. Yield per year	1	0	0	1

Table 7. Periodic percentage rate nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	216	72	31	213
Nomenclature used	41	10	3	28
1. Daily interest	37	10	3	24
2. Daily earnings	3	0	0	3
3. Instant daily earnings	1	0	0	1

Table 8. Method of computing earnings nomenclature used, by type of institution.

Nomenclature used	Savings institutions: All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	123	45	13	65
Nomenclature used	234	37	21	176
DIDO				
1. Day in to day out	18	0	0	18
2. Day of deposit to day of withdrawal	62	12	7	43
3. Earn from date of deposit to date of withdrawal	98	7	4	87
4. Day/in--Day/out	6	0	0	6
5. From date of deposit through date of withdrawal	1	0	0	1
6. Earn full daily interest from the exact day received to the day withdrawn	1	0	0	1
7. From day of deposit to the day of withdrawal, provided the account remains open until next interest payment period	3	2	1	0
8. DIDO, day of deposit to day of withdrawal	1	0	0	1
9. Interest paid from instant of deposit to instant of withdrawal	1	0	0	1
10. Paid from (but not for) the date of deposit to (and not including) the date of withdrawal. Compounding on deposits received after last Monday of each qtr. will begin after end of the following qtr.	1	0	0	1
Low Balance				
11. Lowest balance in account during quarter	1	1	0	0
12. If you have less than $500 interest will be computed on the low balance for the quarter	1	1	0	0

Table 8. Continued.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
		[number]		
LIFO				
13. Interest paid on the balance at the end of the qtr. When funds are withdrawn between interest distribution dates, the withdrawal is considered to be made from the money most recently deposited	1	0	0	1
Day of receipt				
14. Earn interest each day on deposit	4	3	0	1
15. Full interest earned from day funds are deposited	2	1	0	1
16. From date of receipt	3	0	0	3
17. Daily from date of receipt for even higher yields	1	0	0	1
18. All plans earn daily interest compounded continuously	1	0	0	1
19. From day you make the deposit	13	5	5	3
Quarter's end				
20. Balance on deposit for full qtr.	1	1	0	0
21. Funds withdrawn between quarterly interest paying periods will not earn interest	1	0	0	1
22. From day of deposit to end of dividend period	1	0	1	0
23. From date of receipt after the 10th. Withdrawals prior to distribution dates are not eligible for payment of interest	1	0	0	1
Others				
24. Full interest up to the day the account is closed	1	1	0	0
25. Interest paid to date of withdrawal	6	1	1	4
26. Computed for full months on the balance or part of the balance as remains on deposit until the close of the quarter	1	1	0	0

Table 8. Continued.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
		[number]		
27. Compounded quarterly on average balance of $100 or more per calendar quarter, providing the account remains open through end of the quarter	1	0	1	0
28. Interest calculated as of the entire balance	1	0	1	0
29. Interest will be calculated as of the last day of May and Nov., each year on the highest continuous balance to the account in each calendar month	1	1	0	0

Some institutions were very explicit. They specifically stated: "through date of withdrawal," "from the exact day received," and "paid from (but not for) the date of deposit to (and not including) the date of withdrawal."

The two institutions quoting use of the Low Balance method each expressed it differently (See Table 8). Only one quoted and described use of a LIFO (Last-in First-out) system .

Several (7%) described methods only in terms of day of deposit, with no reference to the day of withdrawal. These may have been describing DIDO accounts. But they might also be describing LIFO and FIFO accounts. Others said only that funds must be on deposit for full quarter.

Twelve institutions gave descriptions that were nebulous, such as: "calculated on entire balance," "on highest continuous balance," and "full interest up to the day account is closed."

Compounding frequency

There were eighteen different expressions of compounding frequencies found in the literature of 295 institutions. Terms were generally in line with proposed legislation, as "compounded daily," "compounded quarterly," and "compounded continuously" were the most frequently used terms to express compounding frequency. There were, however, a few exceptions that would not comply with proposed regulations. For example, the terms continuous and daily were combined as one expression, and "day of deposit to day of withdrawal" was incorporated with "compounding" in another instance (See Table 9).

Table 9. Compounding frequency nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	62	18	3	41
Nomenclature used	295	64	31	200
Continuous				
1. Continuous compounding	8	0	2	6
2. Compounded continuously	27	2	5	20
3. Continuous daily compounding	1	0	0	1
4. Compounded every instant	1	0	0	1
5. Instant compounding	1	0	0	1
Daily				
6. Compounded daily	189	28	23	138
7. Daily compounding	2	0	0	2
8. Compounding on a daily basis	1	0	0	1
9. Compounded on daily balances	1	0	0	1
10. Compounded from day of deposit to day of withdrawal	1	0	0	1
Monthly				
11. Compounded monthly	2	1	0	1
Quarterly				
12. Paid quarterly	1	0	0	1
13. Compounded quarterly	50	24	1	25
14. Dividends paid quarterly by check or compounded	1	0	0	1
15. Quarterly	1	1	0	0
Others				
16. Compounded semi-annually	4	4	0	0
17. Compounded interest annually	1	1	0	0
18. Compounded annually	3	3	0	0

Computing frequency

Computing frequency was not frequently disclosed. Thirty-two institutions used the words "computed" or "calculated" in describing their passbook savings accounts. The most frequent expressions were: "computed daily" and "computed from date of receipt." Others included "calculated daily," "computed on daily balances," and "computed on the last day of March, June, September, and December" (See Table 10).

Crediting frequency

Forty-two different expressions were used to describe the frequency that earnings are "paid," "credited," "payable," "posted," or "added." All were used in conjunction with the frequency of crediting. The two most frequently used terms were "paid quarterly" (26%), and "credited quarterly" (10%) (See Table 11). No more than 3% of the institutions use any of the other forty expressions of crediting frequency.

Minimums

Fifty-nine of the 357 institutions made reference to minimum time requirements. An additional 163 referred to minimum transaction size. Brochures that utilized charts to display the terms and conditions of the various savings options were easier to read. However, some brochures were so poorly designed that it was difficult to distinguish if the minimum referred to was in relation to the initial deposit, balance required to earn interest, or the length of time the deposit must remain. For example, one such brochure included a column headed "Minimums" under which the statement was simply, "None" (See Table 12). Others were expressed in dollar amounts or simple one and two word expressions. Those mentioning a time requirement most frequently used "none" or "no minimum term."

Table 10. Computing frequency nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	325	66	33	226
Nomenclature used	32	16	1	15
1. Computed daily	7	4	1	2
2. Computed on daily balances	2	1	0	1
3. Calculated daily	4	2	0	2
4. Computed from date of receipt	7	1	0	6
5. Computed from date of deposit to date of withdrawal	1	0	0	1
6. Interest computed from date of deposit to date of withdrawal	1	0	0	1
7. Computed monthly	2	1	0	1
8. Computed for full months	1	1	0	0
9. Calculated monthly	3	3	0	0
10. Computed on the quarter	2	1	0	1
11. Computed on the last day of March, June, Sept., Dec.	1	1	0	0
12. Computed on the 10th day of Jan., April, July, and Oct.	1	1	0	0

Table 11. Crediting frequency nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	132	28	15	89
Nomenclature used	225	54	19	152
Paid				
1. Paid daily	2	1	0	1
2. Paid interest every day your savings are at . . .	1	0	0	1
3. Paid daily, dispersed monthly	1	0	0	1
4. Paid monthly	4	2	2	0
5. Paid quarterly	92	22	3	67
6. Paid or credited qtrly.	8	0	0	8
7. Paid or compounded qtrly.	5	1	0	4
8. Paid at the end of each calendar quarter	6	1	0	5
9. Paid quarterly on accounts remaining open	1	0	0	1
10. Paid/compounded semi-annually	1	1	0	0
Payable				
11. Payable quarterly	6	1	1	4
12. Payable monthly on 15th	1	0	1	0
13. Payable annually	1	1	0	0
14. Payable on a semi-annual basis	1	1	0	0
Posted				
15. Posted quarterly	3	1	0	2
16. Posted semi-annually	1	1	0	0
17. Posted at end of June and Dec.	1	1	0	0
Credited				
18. Credited monthly	7	1	1	5
19. Credited to account on 15th of each mo.	1	0	1	0
20. Credited quarterly	35	7	7	21
21. Credited to the account at end of each calendar quarter	11	2	1	8
22. Credited to account or paid by check each qtr.	5	0	1	4
23. Credited upon last business days of March, June, Sept., & Dec.	3	1	0	2

Table 11. Continued.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
24. Credited to account the 10th of Jan., April, July, & Oct.	1	1	0	0
25. Credited on or before 20th day of June & Dec. or if balance is sooner withdrawn, paid at time of withdrawal	1	1	0	0
26. Credited annually	1	1	0	0
Others				
27. Statement mailed qtrly.	2	1	0	1
28. Quarterly statements	2	1	0	1
29. Added to the account quarterly	5	1	0	4
30. Added to your account every 90 days	1	0	0	1
31. Interest distributed quarterly	2	0	0	2
32. Interest mailed each quarter	1	0	0	1
33. Quarterly interest payment periods	1	0	0	1
34. Receive dividends qtrly.	1	0	0	1
35. Last day of each quarter is fixed as interest payment dates	1	1	0	0
36. Interest payment 4 times a yr. at the end of each calendar quarter	2	0	1	1
37. Last day of Jan., April, July, and Oct.	2	0	0	2
38. Interest earned shown in November statement	1	1	0	0
39. Statements mailed every 6 months	1	1	0	0
40. Interest credited daily	1	0	0	1
41. Dividends paid on 15th of each month	1	0	0	1
42. Added to your account monthly or quarterly	1	0	0	1

Table 12. Minimum nomenclature used, by type of institution.

Nomenclature used	Savings institutions All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	132	33	19	80
Nomenclature used	225	49	15	161
Minimum time requirement	62	11	4	47
1. None	15	3	0	12
2. No minimum holding period	1	0	0	1
3. No minimum required	4	1	0	3
4. No maturity date	4	1	1	2
5. No minimum term	14	1	1	12
6. No minimum maturity	2	0	0	2
7. Unlimited term	3	0	0	3
8. No time restriction	3	0	0	3
9. No withdrawal time required	1	0	0	1
10. No time limit	1	0	0	1
11. One day	3	1	0	2
12. Daily	1	1	0	0
13. Funds must be on continuous deposit for a 30 day period to receive interest	1	1	0	0
14. Funds received after 10th of month earn from 1st of following month	1	0	0	1
15. Withdrawals without penalty after money has been invested 10 days	1	0	0	1
16. Account must remain open through final day of quarter to earn interest	2	0	1	1
17. No interest paid, if account does not remain open for 3 full months	1	1	0	0
18. On deposit for the full quarter	1	1	0	0
19. Initial deposit must be held 30 days before withdrawals can be made to insure the remittance has cleared the institution upon which it was drawn	1	0	0	1
20. Time must be allowed for the check to clear before withdrawals may be made	2	0	1	1

Table 12. Continued.

Nomenclature used	Savings institutions All	Comm. banks	Sav. banks	S&L's
	[number]			
Minimum transaction size	163	38	11	114
21. Minimum deposit to open an account is $1.00	22	10	5	7
22. A minimum balance of $1 is all you need to open an account	6	2	0	4
23. $1.00 minimum amount	5	0	0	5
24. Account can be opened with any amount of $1.00 or more	4	3	0	1
25. You may open your account with any amount	6	1	1	4
26. Start your account with any amount	4	3	0	1
27. Any amount	7	1	0	6
28. No minimum	15	1	1	13
29. No minimum balance	2	0	0	2
30. No minimum deposit	8	2	0	6
31. No minimum required	2	0	0	2
32. No minimum deposit required	3	1	0	2
33. None	1	0	0	1
34. $5 minimum deposit	24	2	1	21
35. Deposit at least $5	2	0	0	2
36. $5 minimum	6	0	1	5
37. Minimum $5 or more	7	1	0	6
38. Open an account with as little as $5	1	0	0	1
39. $10 minimum	23	4	1	18
40. $10 minimum balance necessary to maintain an account	1	0	0	1
41. $10 minimum opening amount	2	1	0	1
42. Minimum opening deposit, $2	1	0	1	0
43. $25 to start account	3	1	0	2
44. $25 minimum	3	2	0	1
45. $50 minimum	3	2	0	1
46. $250	1	1	0	0
47. $100	1	0	0	1

Minimum transaction sizes were usually expressed in dollar amounts, most frequently "$5.00 minimum deposit" (7%) followed by "$10 minimum" (6%). To express the idea that no minimum deposit was required to open an account, "no minimum required" and "none" were used.

Grace days

References to grace days were included in brochures of 26% of the institutions. Seventeen different expressions were used to describe the grace day provisions offered. The most popular was "deposits in by the 10th of the month, earn from the 1st," used by thirty-three of those offering grace days. Similar expressions were used that specified the funds must remain until the end of the quarter to qualify. For example, "received by the 10th of the month, earn from the 1st, when left to end of the quarter," which was used by twenty-three institutions. While the tenth was the most frequent cut-off date for qualifying for grace day provisions, one institution required "funds be in by the 5th," another "by the 12th" and still another "by the 20th" (See Table 13).

Dead days

Of the seven institutions which included references to dead days in their literature, only three used the same expression: "amounts withdrawn during the last 3 business days of a quarter will earn interest to the end of the quarter." In no instance was the term "Dead days" actually used. The only title given the practice of making earned interest available early, was "Lead Period" (See Table 14).

Table 13. Grace day nomenclature used, by type of institution.

Nomenclature used	Savings institutions All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	264	68	20	176
Nomenclature	93	14	14	65
1. Deposits received by the 10th earn from the 1st	10	3	0	7
2. Deposits in by 10th of month earn from the 1st	33	9	8	16
3. Deposits received by 10th of month, earn interest for full month	5	1	0	4
4. If you have less than $500 in savings account, you have 10 days at beginning of each qtr. to qualify	1	1	0	0
5. 10 bonus interest day each month	1	0	1	0
6. Extra earnings on deposits made by the 10th of mo.	1	0	0	1
7. Deposits received by 10th earn from the 1st, when held to end of the qtr.	8	0	0	8
8. Received by the 10th of month earn from the 1st when left to end of qtr.	23	0	2	21
9. Interest from 1st if deposited by 10th of mo. and held to quarter's end	2	0	0	2
10. Deposits made by 10th of month earn from beginning of that month until end of dividend period, if left until dividend paying dates	1	0	0	1
11. Interest paid from 1st of any month on funds in by 10th, if held to end of month	1	0	1	0
12. Money deposited by the 10th of the first month of quarter, earns dividends from 1st of month, provided left on deposit to end of quarter	1	0	1	0
13. Funds in by the 12th earn from the 1st of the month	2	0	0	2

Table 13. Continued.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
14. Funds in by the 5th earn from the 1st of the month	1	0	0	1
15. Received by the 20th, earn for entire month	1	0	1	0
16. Grace day account (no definition was given)	1	0	0	1
17. No longer observe grace days	1	0	0	1

Table 14. Dead days nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	350	82	31	237
Nomenclature used	7	0	3	4
1. Amounts withdrawn during the last 3 business days of a quarter will earn interest to end of that qtr.	3	0	3	0
2. 3-day "Lead Period," credits interest 3 days prior to end of quarter. You can withdraw it without losing interest	1	0	0	1
3. Interest earned through last day of a quarter is available on last Monday in March, June, Sept. and Dec.	1	0	0	1
4. Credited 3 business days before end of quarter	1	0	0	1
5. Withdraw on any of last three business days without losing dividends	1	0	0	1

Charges against deposits

Charges made against deposits were very explicit when given, but were given by only 4% of the institutions. In most cases (10) the charges related to accounts closed within six months or a year from opening. The most frequent description was "a charge of $3 may be made if account is closed within six months." Indirect charges which penalized accounts by way of lost interest were described by five institutions. Four S&L's did not acknowledge deposits made after the tenth of the month for earning computations until the first of the following month. Another stated: "interest lost on money withdrawn before the end of the quarter." Commercial banks most frequently noted direct charges, and S&L's reported indirect charges more frequently (See Table 15).

Subsequent deposits

The majority of the 117 institutions disclosing information about subsequent deposits made reference to the lack of restrictions. Only five stipulated any minimum amounts for subsequent deposits. Thirteen different expressions were used to describe no required minimums for subsequent deposits. Most frequent was "any amount, any time." Of those stipulating minimums, the most frequent was "no less than $1 will be received as a deposit." The variation in nomenclature used is presented in Table 16.

Withdrawal penalties

Thirty-three expressions were used by the 168 institutions to describe the absence or presence of penalties. While each expression was seldom used by more than one institution, they can be classified into three groups: those assessing charges for excessive withdrawals, those claiming no penalties, and those with implied penalties (See Table 17).

Table 15. Charges against deposits nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	343	75	34	234
Nomenclature used	14	7	0	7
1. A charge of $3 may be made if account is closed within 6 mo.	3	2	0	1
2. Charge of $2 against account closed 30 days from opening	1	1	0	0
3. $1 may be charged if an account is closed within 1 year	1	1	0	0
4. Accounts closed within 6 months are subject to $1 service charge	1	1	0	0
5. 50¢ for each withdrawal in excess of 6 during quarter and $2 for any account closed less than one year from opening	1	1	0	0
6. $2 for account closed in less than 1 year, 50¢ for each withdrawal in excess of 4 in any qtr.	1	1	0	0
7. 25¢ may be assessed for each withdrawal after the 3rd one any month	1	0	0	1
8. Interest lost on money withdrawn before end of quarter	1	0	0	1
9. Amounts added after 10th of month earn only after 1st of following month	4	0	0	4

Table 16. Subsequent deposit nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	240	54	28	158
Nomenclature used	117	28	6	83
1. Additional funds any day, any amount	2	0	0	2
2. Additional deposits may be made in any amount at any time	12	1	0	11
3. Add or withdraw in any amount	11	5	0	6
4. No minimum for additions or withdrawals	1	0	0	1
5. Make additions or withdrawals at anytime with no loss of your day-in to day-out interest	3	0	0	3
6. Deposit or withdraw any amount--anytime	10	1	0	9
7. Deposits and withdrawals made at any time	5	3	0	2
8. Additions accepted any time	3	0	0	3
9. May be made at anytime in any amount	20	6	1	13
10. Any amount, anytime	40	10	3	27
11. No minimum deposit	3	0	0	3
12. Add as much or as little as you like	1	0	0	1
13. Add funds any time	1	0	1	0
14. No less than $1 will be received as a deposit	2	1	1	0
15. Minimum future deposit, $1	1	0	0	1
16. Minimum additional deposit $1	1	1	0	0
17. Like amounts, ($5) may be added at anytime	1	0	0	1

Table 17. Withdrawal penalties nomenclature used, by type of institution.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
	[number]			
All	357	82	34	241
None used	188	35	27	127
Nomenclature used	169	47	7	114
Penalties	8	7	0	1
1. When more than 2 withdrawals are made in any month, against an account a cost charge of 25¢ may be deducted from the account for each excessive withdrawal	1	1	0	0
2. Small charge is made if number of monthly withdrawals exceeds 4 in a quarter	2	2	0	0
3. Excessive activity charge of $1 for each withdrawal exceeding 4 a qtr.	1	1	0	0
4. 30 days advance notice required on withdrawals	1	1	0	0
5. Maximum of 4 withdrawals per month	2	1	0	1
6. Nominal service charge is required if more than 1 withdrawal per month is made	1	1	0	0
No penalty	151	37	5	109
7. None	7	1	0	6
8. No penalty	5	1	0	4
9. No withdrawal restrictions	1	0	0	1
10. No penalty paid on withdrawal	4	0	0	4
11. No penalty for withdrawing prior to maturity	1	0	0	1
12. No notice required for withdrawal	6	2	1	3
13. No withdrawal penalties apply to this account	3	1	0	2
14. Withdrawal without penalty	3	1	0	2
15. Any amount anytime	23	8	0	15
16. Withdrawals permitted anytime	37	11	0	26
17. Withdrawals made at anytime, no penalty for withdrawing	11	1	1	9
18. Withdrawals may be exercised at anytime	15	4	1	10

Table 17. Continued.

Nomenclature used	Savings institutions All	Comm. banks	Sav. banks	S&L's
	[number]			
19. Your money is always immediately available	1	1	0	0
20. Withdrawals from your passbook account can be made anytime, without advance notice	9	3	0	6
21. Withdraw or deposit as you like	7	1	0	6
22. Withdrawals may be made at anytime with no loss of interest	7	2	0	5
23. Constant availability of funds	1	0	1	0
24. Withdraw any amount of any purpose any day. There is never a penalty. Pay full interest to the day of withdrawal	2	0	0	2
25. Withdrawals may be made in any amount at anytime without loss of interest	8	0	1	7
Implied penalty	10	3	2	5
26. A $10 minimum balance must be maintained to next quarterly interest payment date	1	0	0	1
27. No interest paid, on balances of $300 or less, when 3 or more withdrawals have been made in any quarter--withdrawal in any amount, any time	1	1	0	0
28. Minimum balance of $1 must be maintained until the end of dividend period. Failure will result in forfeiture of interest on withdrawals up to the date that the balance falls below the minimum balance	1	0	1	0
29. Accounts having more than the number of withdrawals permitted, will be paid at the rate of 1% per annum. $1-$1,999.99 = 2 @ qtr. $2-3,999.99 = 3 @ qtr; 4,000 --- = 4	1	0	0	1

Table 17. Continued.

Nomenclature used	Savings institutions			
	All	Comm. banks	Sav. banks	S&L's
		[number]		
30. Funds withdrawn between quarterly interest paying periods will not earn interest	2	1	0	1
31. You receive dividends on money withdrawn up to the 1st of the month of the withdrawal if the account remains open through the end of quarter	1	0	0	1
32. If account is closed no interest will be paid for the quarter in which it is closed	1	1	0	0
33. Withdrawals prior to distribution dates aren't eligible for interest	2	0	1	1

Only two quoted explicit charges. Others were very vague as to the actual cost to the consumer, for example, "maximum of three withdrawals per calendar quarter without service charge," and "maximum of 4 withdrawals per month."

Nineteen different expressions were used by those institutions claiming no penalties. The most frequent was: "withdrawals permitted anytime." Also used frequently was "any amount, any time."

Nine institutions stated conditions which implied penalties that would affect the management of withdrawals, for example, "no interest paid on balances of $300 or less, or when 3 or more withdrawals have been made in any quarter," or "withdrawals prior to distribution dates aren't eligible for interest." Withdrawal penalties often raised the question of conflicting information. One such institution stated "no interest paid . . . when 3 or more withdrawals have been made," but also states "withdrawals in any amount anytime," a statement frequently used to convey the absence of penalties.

Summary of Results

Literature describing passbook savings accounts was requested from the 510 institutions whose advertisements were the subject of a previous study. Useable responses were received from 357 (70%) of the institutions. These institutions were comprised of 82 commercial banks, 34 mutual savings banks, and 241 savings and loan associations.

Brochures were judged to be fully informative if they supplied key elements of information needed by consumers to make accurate comparisons of savings plans and to manage their account informedly. All 357 brochures were deficient in one or more respects.

While few (2%) failed to disclose the Annual Percentage Rate, over one-third (38%) failed to report the Annual Percentage Yield. And none provided the Periodic Percentage Rate.

Nearly half (44%) gave no information concerning the method used to determine the balance qualifying for interest earnings. About one in five (17%) provided no information pertaining to the frequency earnings are compounded. Nearly one-half (47%) indicated a penalty or minimum requirement.

There was a wide assortment of expressions used to convey each element of information essential for intelligent selection and management of savings plans. The proliferation of nomenclature made evaluating and comparing facts disclosed burdensome. The absence of standard meanings for such words as: compounded, credited, computed, calculated, paid, payable, and available, made it impossible to ascertain if the intended meaning was perceived.

DISCUSSION

The purpose of the study was to evaluate the information passbook literature provides current and potential customers of savings institutions. Disclosures that would be required by the Consumer Savings Disclosure Act (H.R. 14, H.R. 6128) were used as the criteria for evaluating the adequacy of information provided in the savings literature. These have been propounded as the information needed by consumers when selecting a depository for savings, for management of savings, and for validating the accuracy of accounts. These disclosures are enumerated and defined in the Introduction.

The terminology used by institutions studied had not been influenced by "Truth in Savings." Thus, this study straddles the real world, with its diverse and complex language, using words and terms that are largely neither defined nor regulated, and the hypothetical world which uses only terms that have been defined and standardized, a world in which the combination of terms presents a complete savings picture.

Interest paid is a function of the principal balance, the rate per unit of time, and the number of time periods (i.e., I=prt). Essentially, "Truth in Savings" would require disclosure of these basic components plus any conditions which increase or reduce earnings. In keeping with the tradition of expressing the rate in yearly terms, the periodic rate annualized to an Annual Percentage Rate (APR) would also be disclosed, as would the annualized yield (APY).

Unless all of the elements of the simple interest formula I=prt are present, full communication is impaired. Partial disclosure may be misleading, since the choice of what to be disclosed is solely that of the institution, and the institution presumably would choose to accent the most favorable characteristics. This tendency was borne out by this study. For example, S&L's which are permitted a rate advantage over commercial banks disclosed the Annual Percentage Yield almost twice as frequently as did banks. Likewise, the DIDO (Day-in, Day-out) method of computing earnings, which is most favorable to the depositor, was the method most frequently quoted. Also, nearly all references to withdrawal penalties emphasized no penalty was applicable.

All brochures were deficient and present inadequate information for a consumer to obtain an accurate or true assessment of the savings plan. Nevertheless, in this section the important aspects of disclosure will be discussed to highlight the deficiencies of specific elements, and their relationship with other elements of savings options. To be discussed, therefore, will be rates, time units, frequency of compounding, the method of computing earnings, and a miscellaneous assortment of problems which arise as one attempts to discern from the printed literature what financial institutions do or could mean by their use of certain expressions.

Rate and units of time

A large proportion (98%) of the savings institutions provided the annual percentage rate (APR), but less than two-thirds (62%) gave the annual percentage yield (APY), and none gave the periodic percentage rate (PPR). Thus, the rate actually applied for computing earnings was not disclosed. The APR and APY, although informative, merely express the working rate, the PPR, in annual terms. If APR and APY are to be used reliably in comparing savings plans, they must be coupled with other information. Appendix B illustrates the interrelationship of the APR, PPR, and APY for a given or assumed year's length and for compounding frequency. For example, if an institution quotes an APY of 5.20%, it can be assumed that the account is paying at an annual rate of 5.00%, using a 365/360 day year, and compounding interest daily or continuously. And if it quotes an APY of 5.13%, the APR is still 5.00%, but a 365/365 day year, and daily or continuous compounding must be assumed. The assumed length of year and the frequency of compounding affect the yield.

The assumed length of year and the PPR are uniquely related for a given APR. A higher PPR results if the APR is divided by 360 rather than 365 days. This higher PPR, applied over a full year's length (365 times), will generate more interest and, therefore, a higher yield. Also, variations in the PPR result from different assumed lengths for the quarterly interest period, as shown in Appendix C. Quarters may be defined in terms of the actual number of days, or in equal fractions of the year. For example, an APR of 5.00% may reflect a PPR of 1.25% if four equal quarters are used; 1.232864% if a 90-day quarter is used; 1.246573% in instances of a 91-day quarter; and 1.260271% if a 92-day quarter is used. (Incidentally, the two systems would generate slightly different yields. The PPR for equal quarters, if applied over a course of a full year on $100, would yield $5.09453, and $5.09452 if the PPR's reflecting actual number of days for each successive quarter are used.)

Two points are appropriate: 1) If the PPR were disclosed, the higher rate would be readily evident. 2) Because of varying practices in defining the period, the PPR cannot be derived by simple division of the APR (i.e., 5% divided by 360 or 365 for daily, by 4 for quarterly or 2 for semi-annually compounding). This is contrary to the position taken by the U.S. Treasury and the Federal Reserve Board, namely that the PPR need not be disclosed since it can be obtained readily by division (Shultz, 1974 and Kluckman, 1974). Neither Secretary of Treasury, George Shultz, nor Jerauld Kluckman, Chief of the Truth in Lending Section of the Federal Reserve seems to be aware that savings institutions use a variety of time periods. It is evident from this study that different time periods are used, and the consumer is not sufficiently informed to derive the appropriate PPR.

Compounding frequency

Compounding frequency also affects yield, as illustrated in Appendices A and B. Interest calculations for more than one period, such as performed for daily compounding, involves successive applications of the PPR to the principal balances plus accrued interest for each unit of time (i.e., day). Such repetitive calculations can be avoided by use of a table, like the one shown in Appendix D, which gives dollars of interest earned by $100 in indicated number of days.

The rate for one day is the PPR. The rate for two days is slightly more than twice that of one day, because of the interest earned on the first day's interest. The rate increases exponentially so that at the end of the 365th day, the rate is the same as the APY. (Had there been no compounding, the rate would be 365 times the PPR, which is the APR.) Thus, the amount of interest earned for any number of days can be determined by multiplying the principal balance (divided by 100) times the rate shown in Appendix D for the number of days that the balance remained unchanged. If financial institutions were to supply a 92-day table for the PPR paid on the customer's passbook account, the consumer could verify the earnings paid to the account, by multiplication and addition.

Compounding frequency was disclosed by a large portion (83%) of the institutions; savings banks (86%) and S&L's (84%) more frequently than did banks (78%). Since compounding frequency is reflected in the yield, as just discussed, the disclosure of the yield could displace somewhat the need for disclosure of compounding frequency. Yet, only 18% of the banks disclosed the yield, in contrast to the 78% disclosing the frequency of compounding. And while three-fourths of the savings banks and S&L's disclosed the yield, the percentage was less than those disclosing the compounding frequency. Thus, compounding frequency, the mechanism that affects the yield, was more frequently disclosed than the yield itself.

In absence of full knowledge of the actual practices of those institutions, one can only speculate as to the reasons for selective disclosure. But it may be hypothesized that those institutions which chose not to disclose compounding frequency and yield were those most likely to use compounding frequencies that generate lower yields and are less favorable to depositors. A special cross tabulation revealed that while 85% of those compounding continuously and 75% of those compounding daily disclosed the APY; only 38% of those compounding quarterly, and none of those compounding semi-annually or annually disclosed the APY.

Also in support of this hypothesis are results of a recent survey of commercial banks made by the American Bankers Association that 25% of the banks in the U.S. compound interest daily, 40% quarterly, and 25% semi-annually (Banking, Sept. 1974). In contrast, however, 34% of the brochures listed daily compounding, 31% quarterly, and only 5% semi-annually. A comparison of reported practices and disclosure practices of S&L's was similar: approximately 72% of the S&L's in the U.S. report compounding daily or continuously, 26% quarterly, and 3% semi-annually (FHLBB Journal, July 1975). While 72% of the brochures disclosed compound frequencies of daily or continuous, only 11% of the brochures disclosed daily or continuous compounding and none reported semi-annual compounding.

Method of computing earnings

Almost half (44%) failed to disclose the method used for computing earnings. Of those which did disclose the method, 98% reported using the DIDO method, the most favorable method of interest calculation. Again, one can only speculate about the methods used by the non-disclosing institutions, but there is some evidence that those using methods which were less favorable to the customers, were not disclosed. The American Banker Association's survey reported that one-fourth (25%) of all banks use the Low Balance method of computing earnings, and another fourth (24%) use either the FIFO (First-in, First-out), or LIFO (Last-in, First-out) methods (Banking, 1974). Yet, only two commercial banks disclosed using the Low Balance method in their brochures, and none listed the FIFO or LIFO methods.

To the consumer who places money in an account and makes no deposits or withdrawals, the method used to compute earnings is not relevant. But savers who choose a passbook account because of the liquidity it offers would be affected. The more activity a consumer expects in his account, the more important becomes the method for treating deposits and withdrawals in determining the principal balance eligible for interest earnings. Interest earned may vary as much as 171% between the Low Balance and DIDO methods of computing earnings according to Pinson (1970). It is important, therefore, that the method of computing earnings be disclosed.

So informed, the consumer can select the savings plan that best suits his needs, and manage deposits and withdrawals to his best advantage.

Other conditions that increase or reduce earnings

Less than half of the brochures disclosed minimum transaction requirements or minimum balances required to receive earnings. Over four-fifths (82%) mentioned grace days. Very few (4%) disclosed any information about charges against deposits. When reference was made to withdrawal penalties, it usually (94%) declared that no penalties applied to the account. Each of these elements of information is an essential part of the savings picture. The consumer cannot safely substitute assumed facts for what is not disclosed. Partial disclosure can give a distorted conception and inhibits the comparison process. The consumer must be advised of all terms and conditions of the savings plan to compare options accurately.

Ambiguous terminology and confusion

Unless information disclosed is conveyed in a clear and understandable fashion it may be useless or misleading. An essential element of any type of communication is common language; that is, a system of conventionalized words having fixed meanings which are understandable by a considerable portion of the population. Presently the savings industry lacks the standardized terminology necessary to facilitate communication about savings options. Yet, the General Counsel for the Federal Deposit Insurance Corporation contends that there is no problem:

> It is our understanding that most terms used by banks to describe various methods of compounding interest have an established meaning throughout the banking industry. (FDIC letter, April 30, 1971).

The proliferation of nomenclature found in this study, destroys the contention that there is "an established meaning" even for the most critical terms. For example, twenty-eight different expressions were used to describe the APR. Twenty-eight were used to describe the APY. Ten were used to describe the DIDO method of interest calculation. Eighteen were used to communicate the frequency of compounding, and forty-two the frequency earnings are credited.

Proliferation is not the only contributor to confusion. Further ambiguity results from the context in which the non-defined words are used. Sometimes they are even contradictory. For example, one institution (#014) stated in its brochure: "interest is compounded daily on a continuous basis." When asked for clarification, their savings officer responded: "Interest is paid from the date of deposit and is compounded on a continuous basis." (Letter July 11, 1975). Another combination was also internally inconsistent: "all plans earn daily interest compounded continuously." And sixteen institutions used combinations of "daily interest" with quarterly compounding.

The term, "daily interest" is itself ambiguous. It can mean that interest is compounded daily, or merely that the institution includes each day's balance in the amount eligible to earn interest.

The term "paid daily" was also used in varied contexts. For example, institution #084 stated: "Interest compounded daily, paid daily, and dispersed monthly." When asked to explain what this meant for their savers, they responded:

> . . . compounds interest daily and credits it to the account at the end of each month. You are paid from date of deposit to date of withdrawal (Letter of July 15, 1975).

Institution #327 used a similar statement: "Paid daily, credited monthly," and upon inquiry offered this explanation:

> Because regular passbook accounts earn 5.25% annually and are not subject to interest penalties, funds deposited in this type of account earn interest for each day they remain in the passbook thus interest is paid daily.
>
> For convenience the interest on this type of account is recorded within the computer system until the end of each month, at which time it is added to the balance of the account thus interest is credited monthly (Letter of July 3, 1975).

In each of these instances, the word "paid" was used to refer to the method of computing earnings; in other instances, it was used to describe crediting frequency, for example, "paid monthly," "paid quarterly," or "paid or compounded quarterly." The word "payable" has been defined in proposed legislation to mean ". . . the date on which or period of time after which an absolute right to earnings exists, regardless of whether the earnings are actually paid." [H.R. 14 Sec. 3 (6)]. But in the brochures studied, the words: "paid," "payable," "posted," "credited," "dispersed," and "distributed" were seemingly used to convey the same concept.

Jackie Pinson (1970) defined five types of methods that are used to determine the principal balance: Low Balance; FIFO, beginning balance; FIFO, first deposit; LIFO; and DIDO. These are defined in the Introduction. Most descriptions of the DIDO method were understandable, but some were more explicit than others. Institution #324 was very explicit: "paid from (but not for) the date of deposit to (and not including) the date of withdrawal." Descriptions of other methods were less clear. For example, institution #184 stated: "funds withdrawn between quarterly interest paying period will not earn interest." This could mean the institution used a LIFO, FIFO or possibly even a Low Balance method. When asked for clarification, the response was: "Your interest is compounded daily when it is paid quarterly. The last money in is the first money out." [Seemingly, interest is compounded daily, on the principal balance determined by the LIFO method, and is payable quarterly.]

Other examples tax one's imagination, such as one bank's statement:

> Interest is computed daily, compounded and credited quarterly on average balances of $100 or more per calendar quarter, providing the account remains open through the end of the quarter (#052).

Further explanation of this method was requested, but none was received. Another baffling example is from a Florida bank (#114) that sent a copy of its rules and regulations in response to the request for information:

> Interest will be credited upon the last business day of March, June, September, and December of each year and will only be computed for full months, on the balance or such part of the balance as remains on deposit until the close of the quarterly business period. Interest will be computed at the close of the quarterly interest period in which such interest was earned quarterly.

The institution was then asked how frequently interest was compounded, and a hypothetical account was sent for use in demonstrating the method of computing earnings (Letter June 30, 1975). The response was that interest was compounded daily and their interest calculations showed that they use the DIDO method. If true, the response would be in conflict with the original disclosure. A follow-up letter was written asking if, perhaps, the terms and conditions for their passbook account had changed since the printing of the rules and regulations. A questionnaire was enclosed to facilitate updating the information. No reply was received.

Confusion also stemmed from conflicting statements within the same brochure, such as: "open an account in any amount," and "a minimum opening balance of $5." Another stated: "No interest paid on balances of $300 or less, when 3 or more withdrawals have been made in any quarter . . . withdrawal in any amount, any time." Still another stated: "Minimum balance--None," and "Interest computed on average balances of $100 or more."

Several institutions offered more than one account without disclosing all of the terms and conditions needed to know the distinctive differences of the accounts. For example, an Ohio institution (#457) offered two accounts, "Statement Savings," paying 5%; and "Regular Passbook," paying 4 1/2%. Both had the same minimum balance to be eligible for interest earnings, and both compounded interest quarterly. It seemed reasonable to ask: "Why two accounts? Why would a saver wish to invest funds at 4 1/2%, when 5% was available on the same terms?" The institution did not respond to a request for more information and further explanation of each account.

A Nebraska institution (#375) made reference to three accounts:

1) Daily Interest Savings Account, paying 5.25%; compounded continuously, from date of deposit to date of withdrawal; for an annual yield of 5.39%.

2) Daily Interest--Day:In, Day:Out Passbook, paying 5.25% compounded daily, paid day-in/day-out; distributed quarterly for a maximum yield of 5.13%.

3) Regular Passbook, paying 5.25%; compounded daily, paid quarterly, featuring 10 days grace per month, and a "3-day Lead period."

The yield of 5.13% for an APR of 5.25% is so impossible it undoubtedly was a misprint. However, the institution was asked if these were in fact three separate accounts, and if so, what conditions and terms distinguished them. No reply was received.

Because of such confusion, it is evident mere disclosure is insufficient; consumers can still be uninformed if the disclosures made are not presented in an understandable manner. This study confirms that confusion can result when consumers compare savings options which lack full disclosure of all essential pieces of information, or use terminology in making these disclosures which is not standardized and understandable.

CONCLUSIONS AND RECOMMENDATIONS

Communication is the underlying issue. Unless terms and conditions of the savings option are conveyed in a clear and understandable fashion the consumer cannot perform responsibly, efficiently, and informedly. Each savings contract and literature describing the contract should contain the information necessary to select, manage and verify one's savings account. The information must be complete and understandable.

Promotional literature issued by savings institutions and media advertising constitute the major sources of information available to consumers when making decisions about where to place their savings. Brochures often serve as an extension of the savings contract. At times they provide the only written source of information about the terms and conditions of the savings contract. And while they may be more informative than most newspaper advertisements, they also fail to disclose all the essential facts. Savings institutions tend to be discriminating in what they disclose, by disclosing information which is favorable and disguising the unfavorable by passive concealment. As a result, the consumer is not misinformed, but uninformed. A business concern can be expected to market its services to its best advantage, but the consumer should not be disadvantaged by concealment of deficiencies.

A standardized language or system of terminology is essential to any type of communication. Nomenclature currently employed to describe savings options is neither defined nor uniformly used.

As a result of this study the following recommendations are suggested:

1) Legislation similar to the Consumer Savings Disclosure Act should be enacted or, by voluntary action there should be industry wide adoption of the courtroom oath to tell the truth, the whole truth, and nothing but the truth. The desired results would be universal use of a system of conventionalized words, which are defined and are understandable by all parties to savings transactions.

2) Educational materials should be designed for classroom and public use to develop a greater awareness among consumers about the information that is needed to informedly select, manage and verify their accounts.

3) Alternative formats for disclosing and communicating needed information should be developed, and evaluated to assist the industry in providing all essential information in a clear and understandable manner.

Recommendations for additional research include: 1) a study of the adequacy of information presented in radio and television savings advertisements; 2) a study of the adequacy of information received via personal conversations with personnel of financial institutions; and, 3) an evaluation of alternative formats disclosing and communicating savings information for readability and usefulness.

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APPENDICES

APPENDIX A

Annual Percentage Yields for Given APR's

APR	Compound Period						
	Annual 1 yr.*	Semi 1/2 yr.*	Quarter 1/4 yr.*	Month 1/12 yr.*	Day 365/365	Day 365/360	Continuous 1/∞ yr.*
4.00	4.00	4.040000	4.060401	4.074154	4.080848	4.138676	4.081077
4.25	4.25	4.295156	4.318215	4.333771	4.341333	4.402926	4.341606
4.50	4.50	4.550625	4.576509	4.593983	4.602470	4.667885	4.602786
4.75	4.75	4.806406	4.835281	4.854788	4.864257	4.933474	4.864620
5.00	5.00	5.062500	5.094534	5.116189	5.126737	5.199733	5.127110
5.25	5.25	5.318906	5.354267	5.378189	5.389836	5.466710	5.390256
6.00	6.00	6.090000	6.136355	6.167781	6.183110	6.271613	6.183655
7.00	7.00	7.122500	7.185903	7.229008	7.250066	7.354383	7.250818

* 1 year = 365 days

APPENDIX B

Consistent APR, PPR, and APY Rates

APR	Daily Compounding: *Type of year	PPR	APY	Quarterly Compounding: Comp. freq.	PPR	APY
4.00%	365/365	.0109589%	4.0808%	4/yr.	1.000000%	4.0604%
	365/360	.0111111%	4.1387%			
4.50%	365/365	.0123288%	4.6025%	4/yr.	1.125000%	4.5765%
	365/360	.0125000%	4.6679%			
5.00%	365/365	.0136986%	5.1267%	4/yr.	1.250000%	5.0954%
	365/360	.0138888%	5.1997%			
5.25%	365/365	.0143836%	5.3899%	4/yr.	1.325000%	5.3543%
	365/360	.0145833%	5.4667%			
6.00%	365/365	.0164383%	6.1830%	4/yr.	1.500000%	6.1364%
	365/360	.0166667%	6.2716%			
7.00%	365/365	.0191780%	7.2501%	4/yr.	1.750000%	7.1859%
	365/360	.0194444%	7.3544%			

* The figure to the left of the slash indicates how many days in a year, money is eligible to earn interest. The figure to the right of the slash indicates the number of days used to determine the PPR from the APR (i.e. 5.25% APR for a 365/360 day year would compound at a rate of 5.25% ÷ 360 or .0143836% for 365 days a year).

APPENDIX C

Regular and Irregular Quarters and Their Effect on the PPR and APY for a Given APR When Compounded Quarterly

APR	Type of qtr.	PPR	APY	Dollar yield[c]
4.00%	Equal[a]	1.000000%	4.060401%	$4.060401
4.00%	Irregular[b]			$4.060398
	90 days	0.986301%	4.060681%	
	91 days	0.997260%	4.060546%	
	92 days	1.008219%	4.152307%	
	92 days	1.008219%	4.152307%	
4.50%	Equal	1.125000%	4.576509%	$4.576509
4.50%	Irregular			$4.576520
	90 days	1.109592%	4.576878%	
	91 days	1.121921%	4.576593%	
	92 days	1.134250%	4.576308%	
	92 days	1.134250%	4.576308%	
5.00%	Equal	1.250000%	5.094534%	$5.094534
5.00%	Irregular			$5.094520
	90 days	1.232874%	5.094965%	
	91 days	1.246573%	5.094612%	
	92 days	1.260271%	5.094256%	
	92 days	1.260271%	5.094256%	
5.25%	Equal	1.312500%	5.354267%	$5.354267
5.25%	Irregular			$5.354922
	90 days	1.294524%	5.354770%	
	91 days	1.308098%	5.354381%	
	92 days	1.323291%	5.356541%	

[a] PPR is based on the assumption that each quarter is an equal fractional part of a year, i.e. 1/4.

[b] PPR is based on the assumption that each quarter contains the actual number of days for that calendar quarter.

[c] per $100 invested.

APPENDIX D

Factor Table

Dollars of Interest Earned by $100 in Indicated Number of Days

APR = 5.00%		Daily Compounding		PPR = .013889		365-day basis	
Days	Interest	Days	Interest	Days	Interest	Days	Interest
1.	$.013889	24.	$.333866	47.	$.654867	70.	$.976895
2.	.027780	25.	.347802	48.	.668847	71.	.990920
3.	.041672	26.	.361739	49.	.682829	72.	1.004946
4.	.055567	27.	.375678	50.	.696813	73.	1.018975
5.	.069464	28.	.389619	51.	.710798	74.	1.033005
6.	.083362	29.	.403562	52.	.724786	75.	1.047038
7.	.097263	30.	.417507	53.	.738776	76.	1.061072
8.	.111165	31.	.431454	54.	.752767	77.	1.075108
9.	.125069	32.	.445403	55.	.766760	78.	1.089147
10.	.138976	33.	.459353	56.	.780756	79.	1.103187
11.	.152884	34.	.473306	57.	.794753	80.	1.117229
12.	.166794	35.	.487261	58.	.808752	81.	1.131273
13.	.180706	36.	.501217	59.	.822754	82.	1.145319
14.	.194620	37.	.515176	60.	.836757	83.	1.159367
15.	.208536	38.	.529136	61.	.850762	84.	1.173417
16.	.222454	39.	.543098	62.	.864769	85.	1.187469
17.	.236374	40.	.557063	63.	.878778	86.	1.201522
18.	.250295	41.	.571029	64.	.892789	87.	1.215578
19.	.264219	42.	.584997	65.	.906802	88.	1.229636
20.	.278145	43.	.598967	66.	.920817	89.	1.243696
21.	.292072	44.	.612939	67.	.934833	90.	1.257757
22.	.306002	45.	.626913	68.	.948852	91.	1.271821
23.	.319933	46.	.640889	69.	.962873	92.	1.285886

APPENDIX E

INSTRUCTIONS TO CODERS

PURPOSE

The purpose of coding:

Record what facts savings institutions use to describe their passbook accounts---what they disclose.

List descriptions of terms and features used by savings institutions--how they say it,---what words they use. (Code these for variables labeled as nomenclature)

NOMENCLATURE

Nomenclature is an effort to document the rainbow of terms used to convey the same characteristics. I hope then to assemble a glossary of terms found in the study.

VARIABLES THAT MAY CAUSE DIFFICULTY

PPR Nomenclature --- We don't expect any institutions to give the PPR, but some do make casual reference to the period that interest is applied. i.e. "Compounded continuously on daily balances"
"Instant Interest" vs compounded daily
"Daily interest"vs compounded quarterly

Record any such references under Variable #11--PPR Nomenclature. This will be used to determine frequency of conflicts such as: "daily interest compounded quarterly".

Minimum Opening Balance & Minimum That Must be Held to End of Quarter.

Many institutions may state "No minimum balance required"; but give no indication as to which balance it is referring. If this is the case, code variable #13, Minimum that must be held to end of the quarter,--7. And code #14, Minimum opening balance,--3.

Method Used to Determine Balance

Most institutions do not mention the method used, unless they are using DIDO. However, be careful that you do not infer DIDO when insuffient evidence is given to determine it clearly.
Many phrases that may at first seem to indicate DIDO could also be refering to FIFO.
i.e. #395--"from date of receipt" was the only reference used to indicate the method used to determine the balance the interest rate is applied. This could be an indication of either FIFO or DIDO. Therefore, label variable #19--none disclosed, and make reference to the words used in variable #20--nomeclature.

DIDO should be represented by pharases such as:
"savings earn from date of receipt to date of withdrawal"
"earnings are paid from day-in to day-out."
"Day/in--Day/out, compounded"

page 2

GRACE DAYS

Read carefully any references to grace days. Distinguish between:
"earns from the 10th"
"earns from the 10th of the month"
"earns from the 10th of the quarter"

MECHANICS

Each envelope has been assigned a number, which you find in the upper right corner of the face of the envelope.

As you read thru the brochures underline facts and terms with a yellow highlighter, so that when they are checked it will be easier to find the items.

After examining the brochures, place a check beside the institution number, if checking place a second check by the number.

If there are any items that you don't know how to handle place them aside in the box designated for Cathy.

ITEMS OF SPECIAL INTEREST

Strange or interesting terminology or combinations of terms of special interest that may want to be examined more closely later should be earmarked for later reference. Place an * in the righthand corner of the tally sheet & copy items of interest on the back of the sheet.
i.e. "Full interest" as used by #395.

Column #	Variable #	Material Coded
(1)	001	Coder

1. Cathy B.	5.
2. Cheryl D.	6.
3. Barbara A.	7.
4. Nandita S.	8.
	9.

(2)	002	Checker

1. Cathy B.	5.
2.	6.
3.	7.
4.	8.

(3,4)	003	REGION (see map)

1. Boston	7. Chicago
2. New York	8. St. Louis
3. Philadelphia	9. Minneapolis
4. Cleveland	10. Kansas City
5. Richmond	11. Dallas
6. Atlanta	12. San Francisco

(5,6,7)	004	INSTITUTION NUMBER

(see list)

(8)	005	TYPE OF INSTITUTION

1. Commercial Bank	8. Other
2. Savings Bank	9. None disclosed
3. Industrial Bank	
4. Savings & Loan Assoc.	
5. Credit Union	

(9,10,11)	006	ANNUAL PERCENTAGE RATE---APR

_._._ % (state exact quotation, to nearest decimal)

999 None Disclosed

(12,13)	007	APR NOMENCLATURE

01. "Annual Percentage Rate"	14.
02. "Annual Interest Rate"	15.
03. "Annual Rate"	16.
04. "Interest Per Annum"	17.
05. "Interest"	18.
06. "Stated Annual Rate"	19.
07. "Annual Interest"	20.
08. "Base interest rate"	21.
09. "per year"	22.
10. "a year"	23.
11. "rate"	24.
12.	25.
13.	26.

		APR NOMENCLATURE cont.	
(12,13)	007	27.	46.
		28.	47.
		29.	48.
		30.	49.
		31.	50.
		32.	51.
		33.	52.
		34.	53.
		35.	54.
		36.	55.
		37.	56.
		38.	57.
		39.	58.
		40.	59.
		41.	60.
		42.	61.
		43.	62.
		44.	63.
		45.	64.
			99. None disclosed
(14,15,16,17)	008	APY--ANNUAL PERCENTAGE RATE	
		__. __.__ __ % (State quotation to nearest decimal)	
		9999. None disclosed	
(18, 19)	009	APY NOMENCLATURE	
		01. "Annual Percentage Yield"	26.
		02. "Annual Yield"	27.
		03. "Effective Annual Yield"	28.
		04. "Effective Annual Rate"	29.
		05. "Yield per annum"	30.
		06. "Savings yield"	31.
		07. "Effective interest rate"	32.
		08. "Average annual yield"	33.
		09. "Annual effective yield"	34.
		10. "yield"	35.
		11.	36.
		12.	37.
		13.	38.
		14.	39.
		15.	40.
		16.	41.
		17.	42.
		18.	43.
		19.	44.
		20.	45.
		21.	46.
		22.	47.
		23.	48.
		24.	49.
		25.	50.
			99. None disclosed

(20) 010. PPR--Periodic Percentage Rate

1. Actual PPR stated (do not list)
9. None disclosed

(21-22) 011. PPR NOMENCLATURE/Reference to the period interest is applied (i.e. daily interest)

01. "Instant daily interest"
02. "Daily interest"
03. "Instant interest"
04.
05.
06.
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14.
15.

99. None Disclosed

(23) 012. Dollar Yield

1. Amount in $ that can be expected at end of period, with conditions included
2. Interest at end of period, just $ amount stated.
3. Yield available in pre-paid interest , conditions noted.
4. Yield available in pre-paid interest, no conditions given.
9. None disclosed.

(24) 013. MINIMUM BALANCE THAT MUST BE HELD UNTIL THE END OF PERIOD TO EARN INTEREST

1. $1.00
2. $2.50
3. $3.00
4. $5.00
5. $10.00
6. Specifically state no minimum required
7. States no minimum required,unclear as to which balance it pretains.
8. Other
9. None disclosed

(25) 014. MINIMUM DEPOSIT REQUIRED TO OPEN ACCOUNT

1. Amount of minimum stated.
2. Specifically state no minimum.
3. State no minimum, but not clear as to which balance it refers.
9. None disclosed.

(26,27) 015. MINIMUM DEPOSIT NOMENCLATURE

01. Minimum deposit to open account is $1.00
02. a minimum balance of $1.00 is all you need to open an account
03. $3.00 minimum
04. You may open your account with any amount
05. $5 minimum deposit
06. No minimum
07. No minimum balance
08. No minimum deposit

(26,27) 015. Minimum deposit nomenclature cont.

09. No minimum required
10. $10 minimum
11. $10 minimum balance necessary to maintain an account
12. $10 minimum opening amount
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99. None disclosed

(28) 016. MINIMUM LENGTH OF TIME DEPOSIT MUST REMAIN SO EARNINGS ARE PAYABLE AT THE RATE QUOTED

1. An actual time is stated
2. Specifically states no time limit

9. None disclosed

(29-30) 017. MINIMUM LENGTH NOMENCLATURE

01. "None"
02. "no minimum holding period"
03. " no minimum required"
04. "No maturity date
05. "Funds must be held 6 months or $3.00 will be asesed to cover cost of handling account.
06.

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(31) 018. LENGTH OF YEAR USED IN COMPUTING INTEREST

1. 365 days
2. 360 days
3. 360/365 days

9. None disclosed

(32) 019. METHOD USED TO DETERMINE BALANCE

1. Low Balance
2. FIFO on Beginning Balance
3. FIFO on first deposit
4. FIFO unspecified
5. LIFO
6. DIDO

8. Other
9. None Disclosed

(33,34) 020. METHOD USED NOMENCLATURE

01. "Day in to Day Out"
02. "Day of deposit to day of withdrawal"
03. "Earn interest each day on deposit"
04. "full interest earned from day funds are deposited
05. "Earns 5% per annum to day of withdrawal provided only that a balance remains in the account to end of quarter"
06. "from date of receipt"
07. "daily from date of receipt for even higher yields"
08. "all plans earn daily interest compounded continuously"
09. "from day you make the deposit to the day of withdrawal"
10. "earn from date of deposit to date of withdrawal"
11. "Day/in -- Day/out,"
12. "from day you make the deposit"
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(35) 021. . COMPOUNDING FREQUENCY

1. Continuously
2. Daily
3. Monthly
4. Quarterly
5. Semi-annually
6.
7.
8. Other
9. None disclosed

(36,37) 022. COMPOUNDING FREQUENCY NOMENCLATURE

01. "daily compounding"
02. "compounding daily"
03. "paid quarterly"
04. "compounded quarterly"
05. "Continuous compounding"
06. "compounded continuously
07. "dividends paid quarterly by check or compounded"
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(38) 023. COMPUTING FREQUENCY

1. Continuously
2. Daily
3. Monthly
4. Quarterly
5. Semi-annually
6. Annually
7.
8. Other
9. None disclosed

(39) 024. COMPUTING FREQUENCY NOMENCLATURE

01. "interest computed & compounded daily"
02.
03.
04.
05.
06.

(40) 025. CREDITING FREQUENCY

1. Daily
2. Monthly
3. Quarterly
4. Semi-annually
5. Annually

8. Other
9. None disclosed

(41-42) 026. CREDITING FREQUENCY NOMENCLATURE

01. "credited monthly
02. "paid or credited quarterly"
03. "paid quarterly
04. "credited quarterly"
05. "paid & compounded quarterly"
06. "paid at the end of each calendar quarter"
07. "credited to the account at end of each calender quarter"
08. "credited to account or paid by check each quarter"
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page 8 code sheet

(43-44) 027 DATES WHEN EARNINGS ARE ROUTINELY PAID OR PAYABLE

01. "distributed quarterly--March 31, June 30, Sept. 30, Dec 31."
02. "paid quarterly"
03. "paid quarterly on March 30, June 30, Sept. 30, Dec. 30"
04. "credited quarterly on Jan. 31, April 30, July 31, Oct. 31."
05. "at end of @ calendar quarter, March 31, June 30, Sept 30, Dec
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(45) 028. ANY CHARGES AGAINST DEPOSITS

1. Charges described
2. Specifically states no charges
9. None disclosed

(46,47) 029. CHARGES NOMENCLATURE

01. a charge of $3 maybe made if this account is closed within 6 months to defray cost of handling such account.
02.
03.
04.

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(48) 030. AMOUNT REQUIRED FOR SUBSEQUENT DEPOSITS

1. Amount specified
2. Specifically states no specific amount

9. None disclosed

(49,50) 031 AMOUNT OF SUBSEQUENT DEPOSIT NOMENCLATURE

01. "additional funds any day, any amount."
02. "no less than $1 will be received as a deposit"
03. "additional deposits may be made in any amount at any time"
04. "add or withdraw in any amount"
05. "no minimum for additions or withdrawals"
06. "make additions or withdrawals at anytime with no loss of your day-in to day-out interest.
07. "deposit or withdraw any amount---anytime"
08.
09.
10.

(51,52) 032. WITHDRAWAL PENALTY (nomenclature)

01. "no penalty for withdrawing prior to maturity"
02. "no penalty paid on withdrawal"
03. no notice required for withdrawal"
04. "no withdrawal penalities apply to this account"
05. "withdrawals permitted anytime"
06. "withdrawals made at anytimes, no Penalty for withdrawing"
07. "no lost interest providing only that a balance remains in the account to the end of quarter."
08. "withdrawals may be excercised at anytime."
09. "if account is closed between quarterly interest payment dates the interest will'be computed and paid immediately at the time of withdrawals."
10. "Your money is always immediately available"
11. "None"
12. "withdrawals from your passbook account can be made anytime without advance notice."
13. "withdrawals at anytime with no loss of your day-in to day-out interest"
14. "withdraw or deposit as you like"
15. "withdrawals may be made at anytime, with no loss of interest, provided the check deposits have cleared."
16. "If account is closed you receive your interest immediately"
17. "When more than 2 withdrawals are made in any one month, against an account, a cost charge of 25c maybe deducted from the account for each excessive withdrawals.
18. ".A $10 minimum balance must be maintained to next quarterly interest payment date"

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(53-54) 033. GRACE DAYS NOMENCLATURE

01. "Any deposit you make up to the tenth day of quarter will earn interest from 1st day of that quarter."
02. "Deposit received by the 10th earn from the 1st
03. "deposits received by 10th earn from the 1st, when held to end of the quarter."
04. "received by the 10th of month earn from the 1st when left to end of quarter".
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(55-56) 034. DEAD DAYS NOMENCLATURE

01. "Amounts withdrawn during the last three business days of a quarter will earn interest to end of that quarter."

02.

03.

04.

05.

06.

07.

(57-58) 035. INSURANCE

01. FDIC
02. FSLIC
03. NCUA
04. Guaranty Corporation of Colorado
05. Maryland Savings-Share Insurance Corp.
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99. None disclosed

(59) 036. GIFTS (Present of not mentioned)

1.. Gifts are offered in the brochure

9. Gifts are not offered

page 12, code sheet

(60) 037. INTERNAL CONSISTENCY AND ACCURACY

1. APR,APY and compounding frequency are consistent.
2. APR,APY and compounding frequency are not consistent.
3. Accurate, if a 360/365 day year is assumed

:

9. Not enough information disclosed to assess accuracy.

(61-62) 038. ADVERTISING INDEX

(omit for now)

(63) 039. TYPE OF RESPONSE

1. Elaborate brochure, + personal letter
2. Simple brochure + personal letter
3. Elaborate brochure + form letter
4. Simple brochure + form letter
5. Elaborate brochure + no letter (brochure only)
6. Simple brochure + no letter (brochure only)
7. Letter only

TRUTH IN SAVINGS
AN EVALUATION OF PASSBOOK SAVINGS LITERATURE

by

CATHY ANN BUTTS

B. S., Kansas State University, 1974

AN ABSTRACT OF A MASTER'S THESIS

submitted in partial fulfillment of the

requirements for the degree

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Promotional literature distributed by savings institutions and media advertising constitute the major sources of information available to consumers. A previous study evaluated the adequacy of information presented in newspaper advertisements. This study assessed the value of brochures and other literature distributed by savings institutions.

The objectives of the study were to: 1) measure the frequency that brochures incorporated key elements of information needed by consumers to make accurate comparisons of savings options and to manage their accounts informedly, 2) assess the proliferation of nomenclature used in passbook literature, 3) seek clarification of terms and conditions which are ambiguous and have the potential for confusion and misinterpretation, 4) examine the above characteristics in relation to the type of institution and regional location within the continental United States.

Passbook savings literature was requested from the 510 savings institutions whose advertisements were previously analyzed. Of the 128 commercial banks, 64% responded, as did 83% of the savings banks and 80% of the S&L's. Brochures were judged to be fully informative if they supplied the elements of full disclosure as prescribed by H.R. 14 and H.R. 6128, the "Consumer Savings Disclosure Act."

All 357 brochures were deficient in one or more respects. None provided the Periodic Percentage Rate. Over one-third (38%) failed to report the Annual Percentage Yield. Nearly half (44%) gave no information concerning the method used to determine the balance eligible for interest earnings. And one in five provided no information pertaining to the compounding frequency.

A variety of nomenclature was found for each variable. For example, twenty-eight expressions were used to describe the concept of annual percentage yield. Furthermore the consistency in usage and placement of such words as compounded, credited, paid, payable, and daily made the intended meaning impossible to ascertain. Follow-up letters seeking further explanation of items found to be particularly confusing produced some clarification but only for the individual situations.

Major differences between types of institutions occurred in frequency of disclosures of annual percentage yield and method of computing earnings. Savings and loan associations disclosed both more frequently than banks. The data were not sufficient to warrant analysis by region.

Savings literature, although generally more informative than savings advertisements, does not provide the consumer with adequate information to obtain an accurate or true assessment of the savings plan.

Recommendations of the study include suggestions for legislative action, educational efforts, and further research.