for overdrawing an account, or a general notice that items overdrawn an account may trigger a fee:

(x) Informational or educational materials concerning the payment of overdrafts if the materials do not specifically describe the credit union's overdraft service; or

(xii) An opt-out or opt-in notice regarding the credit union's payment of overdrafts or provision of discretionary overdraft services.

(3) Exception for ATM screens and telephone response machines. The disclosures described in paragraphs (b)(1)(ii) and (b)(1)(iv) of this section are not required in connection with any advertisement made on an ATM screen or using a telephone response machine.

(4) Exception for indoor signs. Paragraph (b)(1) of this section does not apply to advertisements for the payment of overdrafts on indoor signs as described by §707.8(e)(2) of this part, provided that the sign contains a clear and conspicuous statement that fees may apply and that members should contact an employee for further information about applicable fees and terms. For purposes of this paragraph (b)(4), an indoor sign does not include an ATM screen.

(c) Disclosure of account balances. If a credit union discloses balance information to a member through an automated system, the balance may not include additional amounts that the credit union may provide to cover an item when there are insufficient or unavailable funds in the member's account, whether under a service provided in its discretion, a service subject to part 1026 of this title (Regulation Z), or a service to transfer funds from another member account. The credit union may, at its option, disclose additional account balances that include such additional amounts, if the credit union prominently states that any such balance includes such additional amounts and, if applicable, that additional amounts are not available for all transactions.

days. In determining the total dividends figure to be used in the formula, credit unions shall assume that all principal and dividends remain on deposit for the entire term, and that no other transactions (deposits or withdrawals) occur during the term. (This assumption shall not be used if a credit union chooses, as a condition of the account, that members withdraw dividends during the term. In such a case, the dividends (and annual percentage yield calculation) shall reflect that requirement.) For term share accounts that are offered in multiples of months, credit unions may base the number of days on either the actual number of days during the applicable period, or the number of days that would occur for any actual sequence of that many calendar months. If credit unions choose to use this permissive rule, they must use the same number of days to calculate the dollar amount of dividends that will be earned on the account in the annual percentage yield formula (where “Dividends” are divided by “Principal”).

The annual yield is to be calculated by use of the following general formula \(\text{APY} = \frac{100}{\text{Principal}} \times (1 + \frac{\text{Dividends}}{\text{Principal}})^{\frac{\text{Days in term}}{365}} - 1\).

“Principal” is the amount of funds assumed to have been deposited at the beginning of the account.

“Dividends” is the total dollar amount of dividends earned on the Principal for the term of the account.

“Days in term” is the actual number of days in the term of the account.

When the “Days in term” is 365 (that is, where the stated maturity is 365 days or where the account does not have a stated maturity), the APY can be calculated by use of the following simple formula:

\[ \text{APY} = 100 \left( \frac{\text{Dividends}}{\text{Principal}} \right) \left( \frac{365}{\text{Days in term}} \right) \]  

Examples:

1. If a credit union would pay $61.68 in dividends for a 365-day year on $1,000 deposited into a share draft account, the APY is 6.17%:

\[ \text{APY} = 100 \left( \frac{61.68}{1000} \right) \left( \frac{365}{365} \right) - 1 \]  

2. If a credit union pays $30.37 in dividends on a $1,000 six-month term share certificate account (where the six-month period used by the credit union contains 182 days), using the general formula above, the APY is 6.18%:

\[ \text{APY} = 100 \left( \frac{30.37}{1000} \right) \left( \frac{365}{182} \right) - 1 \]  

The APY is affected by the frequency of compounding, i.e., the amount of dividends will be greater the more frequently dividends are compounded for a given nominal rate. When two credit unions are offering the same dividend rate on, for example, a share account, the APY disclosed may be different if the credit unions use a different frequency of compounding.

Examples:

1. If a credit union pays $1,268.25 in dividends for a 365-day year on $10,000 deposited into a regular share account earning 12%, and the dividends are compounded monthly, the APY will be 12.68%:

\[ \text{APY} = 100 \left( \frac{12.68}{10000} \right) \]  

2. However, if a credit union is compounding dividends on a quarterly basis on an account which otherwise has the same terms, the dividends will be $1,250.09 and the APY will be 12.55%:

\[ \text{APY} = 100 \left( \frac{12.55}{10000} \right) \]

B. Stepped-Rate Accounts (Different Rates Apply in Succeeding Periods)

For accounts with two or more dividend rates applied in succeeding periods (where the rates are known at the time the account is opened), a credit union shall assume each dividend rate is in effect for the length of time provided for in any share agreement.

Examples:

1. If a credit union offers a $1,000 6-month term share (certificate) account on which it pays a 5% dividend rate, compounded daily, for the first three months (which contain 91 days), and a 5.5% dividend rate, compounded daily, for the next three months (which contain 92 days), the total dividends for six months is $26.68, and, using the general formula above, the APY is 5.39%:

\[ \text{APY} = 100 \left[ 1 + \left( \frac{26.68}{1000} \right) \left( \frac{365}{183} \right) \right] - 1 \]  

2. If a credit union offers a $1,000 2-year share certificate on which it pays a 6% dividend rate, compounded daily, for the first year, and a 5% dividend rate, compounded daily, for the next year, the total dividends for two years is $133.13, and, using the general formula above, the APY is 6.45%:

\[ \text{APY} = 100 \left[ 1 + \left( \frac{6.5}{1000} \right) \left( \frac{365}{182} \right) \right] - 1 \]  

C. Variable-Rate Accounts

For variable-rate accounts without an introductory premium or discounted rate, a credit union must base the calculation only on the initial dividend rate in effect when the account is opened (or advertised), and assume that this rate will not change during the year.

Variable-rate accounts with an introductory premium or discount rate must be treated like stepped-rate accounts. Thus, a credit union shall assume that: (1) The introductory simple dividend rate is in effect for
the length of time provided for in the account contract; and (2) the variable dividend rate that would have been in effect when the account was opened or advertised (but for the introductory rate) is in effect for the remainder of the year. If the variable rate is tied to an index, the index-based rate in effect at the time of disclosure must be used for the remainder of the year. If the rate is not tied to an index, the rate in effect for existing members holding the same account (who are not receiving the introductory dividend rate) must be used for the remainder of the year.

For example, if a credit union offers an account on which it pays a 7% dividend rate, compounded daily, for the first three months (which, for example, contains 91 days), while the variable dividend rate that would have been in effect when the account was opened was 5%, the total dividends for a 365-day year for a $1,000 account balance is $56.52, (based on 91 days at 7% followed by 274 days at 5%). Using the simple formula, the APY is 5.65%:

\[ \text{APY}=100 \left(1 + \frac{53.90}{1,000}\right)^{365/365} - 1 \]

Thus, using the simple formula, the annual percentage yield for the second tier is 5.39%:

\[ \text{APY}=100 \left(1 + \frac{53.90}{1,000}\right) = 5.39\% \]

Third tier. The credit union will pay $1,183.61 in dividends on a $20,000 account balance. Thus, using the simple formula, the annual percentage yield for the third tier is 5.92%:

\[ \text{APY}=100 \left(1 + \frac{1,183.61}{20,000}\right) = 5.92\% \]

**Tiering Method A**

Under this method, a credit union pays the stated dividend rate only on that portion of the balance within the specified tier. For example, if a member deposits $8,000, the credit union pays 5.25% on only $2,500 and 5.50% on $5,500 (the difference between $8,000 and the first tier cutoff of $2,500). This is also known as a "pure" tiered rate account. The credit union that computes dividends in this manner must provide a range that shows the lowest and highest annual percentage yields for each tier (other than for the first tier, which, like the tiers in Method A, has the same annual percentage yield throughout). The low figure for an annual percentage yield is calculated based on the total amount of dividends earned for a year assuming the minimum principal required to earn the dividend rate for that tier. The high figure for an annual percentage yield is calculated based on the amount of dividends the credit union would pay on the highest principal that could be deposited to earn that same dividend rate. If the account does not have a limit on the amount that can be deposited, the credit union may assume any amount. For the tiering structure assumed above, the credit union would state a total of five annual percentage yields—one figure for the first tier and two figures stated as a range for the other two tiers.

**First tier.** Assuming daily compounding, the credit union could pay $53.90 in dividends on
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E. Term Share Accounts with a Stated Maturity Greater than One Year that Pay Dividends At Least Annually

1. For term share accounts with a stated maturity greater than one year, that do not compound dividends on an annual or more frequent basis, and that require the member to withdraw dividends at least annually, the annual percentage yield may be disclosed as equal to the dividend rate.

Example:

If a credit union offers a $1,000 two-year term share account that does not compound and that pays out dividends semi-annually by check or transfer at a 6.00% dividend rate, the annual percentage yield may be disclosed as 6.00%.

2. For term share accounts covered by this paragraph that are also stepped-rate accounts, the annual percentage yield may be disclosed as equal to the composite dividend rate.

Example:

(1) If a credit union offers a $1,000 three-year term share account that does not compound and that pays out dividends annually by check or transfer at a 6.00% dividend rate for the first year, 6.00% dividend rate for the second year, and 7.00% dividend rate for the third year, the credit union may compute the composite dividend rate and APY as follows:

(a) Multiply each dividend rate by the number of days it will be in effect;
(b) Add these figures together; and
(c) Divide by the total number of days in the term.

(2) Applied to the example, the products of the dividend rates and days the rates are in effect are (5.00%×365 days) 1825, (6.00%×365 days) 2190, and (7.00%×365 days) 2555, respectively.

The sum of these products, 6570, is divided by 1095, the total number of days in the term. The composite dividend rate and APY are both 6.00%.

PART II. ANNUAL PERCENTAGE YIELD EARNED FOR STATEMENTS

The annual percentage yield earned for statements under §707.6 is an annualized rate that reflects the relationship between the amount of dividends actually earned (accrued or paid and credited) to the member’s account during the period and the average daily balance in the account for the period over which the dividends were earned.

Pursuant to §707.6(a), when dividends are paid less frequently than statements are sent, the APY Earned may reflect the number of days over which dividends were earned rather than the number of days in the statement period, e.g., if a credit union uses the average daily balance method and calculates dividends for a period other than the statement period, the annual percentage yield earned shall reflect the relationship between...
the amount of dividends earned and the average daily balance in the account for the other period, such as a crediting or dividend period.

The annual percentage yield shall be calculated by using the following formulas ("APY Earned" is used for convenience in the formulas):

A. General Formula

\[ \text{APY Earned} = 100 \left( \frac{1 + \text{Dividends earned}}{\text{Balance}} \right)^{\left( \frac{365}{\text{Days in period}} \right)} - 1 \]

- "Balance" is the average daily balance in the account for the period.
- "Dividends earned" is the actual amount of dividends accrued or paid and credited to the account for the period.
- "Days in period" is the actual number of days over which the dividends disclosed on the statement were earned.

Examples:

1. If a credit union calculates dividends for the statement period (and uses either the daily balance or the average daily balance method), and the account had a balance of $1,500 for 15 days and a balance of $500 for the remaining 15 days of a 30-day statement period, the average daily balance for the period is $1,000. Assume that $5.25 in dividends was earned during the period. The annual percentage yield earned (using the formula above) is 6.58%:

\[ \text{APY Earned} = 100 \left( \frac{1 + 5.25}{1,000} \right)^{\left( \frac{365}{30} \right)} - 1 \]

\[ \text{APY Earned} = 6.58\% \]

2. Assume a credit union calculates dividends on the average daily balance for a month (for example, the calendar months of September through November), and provides periodic statements covering calendar months. The account has a balance of $2,000 throughout the 30 days of September, a balance of $2,000 throughout the 31 days of October, and a balance of $3,000 throughout the 30 days of November. The average daily balance for the quarter is $2,000, which results in $21 in dividends earned for the quarter. The annual percentage yield earned would be shown on the periodic statement for November. The annual percentage yield earned (using the formula above) is 4.28%:

\[ \text{APY Earned} = 100 \left( \frac{1 + 21}{2,000} \right)^{\left( \frac{365}{91} \right)} - 1 \]

\[ \text{APY Earned} = 4.28\% \]

B. SPECIAL FORMULA FOR USE WHERE PERIODIC STATEMENT IS SENT MORE OFTEN THAN THE PERIOD FOR WHICH DIVIDENDS ARE COMPOUNDED.

Credit unions that use the daily balance method to accrue dividends and that issue periodic statements more often than the period for which dividends are compounded shall use the following special formula:

\[ \text{APY Earned} = 100 \left( \frac{1 + \text{Dividends earned}}{\text{Balance}} \right)^{\left( \frac{365}{\text{Compounding}} \right)} - 1 \]

The following definition applies for use in this formula (all other terms are defined under Part II):

"Compounding" is the number of days in each compounding period.

Assume a credit union calculates dividends for the statement period using the daily balance method, pays a 5.00% dividend rate, compounded annually, and provides periodic statements for each monthly cycle. The account has a daily balance of $100.00 for a 30-day statement period. The dividend earned of $4.11 for the period, and the annual percentage yield earned (using the special formula above) is 5.00%:
APY Earned = 100 \left[ 1 + \frac{($4.11/1,000)}{30} \right]^{\frac{365}{365}} - 1

APY Earned = 5.00%.

[58 FR 50445, Sept. 27, 1993, as amended at 63 FR 71575, Dec. 29, 1998]

APPENDIX B TO PART 707—MODEL CLAUSES AND SAMPLE FORMS

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GENERAL NOTE: Appendix B contains model clauses and sample forms intended for optional use by credit unions to aid in compliance with the disclosure requirements of §§ 707.4 (account disclosures), 707.5 (subsequent disclosures), 707.6 (statement disclosures), and 707.8 (advertisements). Section 269(b) of TISA provides that credit unions that use these clauses and forms will be in compliance with TISA’s disclosure provisions.

As discussed in the supplementary information to §707.3(a), this final rule provides for flexibility in designing the format of the disclosures. Credit unions can choose to prepare a single document or brochure that incorporates disclosures for all accounts offered, or to prepare different documents for each type of account. Credit unions may also use inserts to a document, or fill in blanks to show current rates, fees and other terms.

In the model clauses, words in parentheses indicate the type of disclosure a credit union should insert in the space provided (for example, a credit union might insert “July 23, 1995” in the blank for a “(date)” disclosure). Brackets and “[ ]” indicate that a credit union must choose the alternative that best describes its practice (for example, “[daily balance/ average daily balance]”). It should be noted that only in sections B–6 through B–10 of this appendix have specific examples of disclosures been given, with dates and figures. Sections B–1 through B–5, and section B–11 provide only unspecific model clauses or blank forms. The Board felt, as articulated in the appendix A to Regulation DD, that a mix of blank clauses and forms and application of the model clauses to real specific situations would benefit those who must comply with TISA.

Any references to NCUA Rules and Regulations, the NCUA Standard FCU Bylaws, or the NCUA Accounting Manual for FCUs, are provided for guidance and as a point of reference for credit unions. Citations to these sources does not indicate that their application is required for those credit unions who need not follow them.

B–1 MODEL CLAUSES FOR ACCOUNT DISCLOSURES (§ 707.4(b))

(a) Rate Information (Sec. 707.4(b)(1))

(i) Fixed-Rate Accounts (§707.4(b)(1)(i)(A–B))

1. Interest-bearing Accounts

The interest rate on your deposit account is ___% with an annual percentage yield (APY) of ___%. [For purposes of this disclosure, this is a rate and APY that were offered within the most recent seven calendar days and were accurate as of (date). Please call (credit union telephone number) to obtain current rate information.] You will be paid this rate (for (time period) until (date) for at least 30 calendar days].

NOTE: This provision reflects an accurate statement for an interest-bearing account authorized by state law for state-chartered credit unions. While the definition of the term “interest” permits its substitution for the term “dividends,” separate disclosures should be made for interest-bearing accounts. Since account opening disclosures may be provided to potential members requesting account information before opening an account, and members opening new accounts, information is provided indicating that the rate may not be current, but that