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Bank Regulatory Law

Truth In Savings

Regulation DD

The Truth in Savings Act is two pronged: it requires certain disclosures and it imposes mandatory requirements on the payment of interest. The Federal Reserve Board ("Board") adopted Regulation DD to implement the act. Compliance is mandated by June 21, 1993.

The purpose of the disclosure requirements is to permit all consumers (whether or not a customer of the institution) to make meaningful comparisons of the deposit products offered by different depository institutions. The act and Regulation DD apply to all consumer accounts, not just "savings" accounts. "Consumer" is defined as "a natural person who holds an account primarily for personal, family, or household purposes, or to whom such an account is offered."

Disclosure requirements primarily cover three areas: (1) disclosure of key account terms in a document(s) called "account disclosures" which must be made available to anyone requesting one; (2) periodic account statements; and (3) advertising.

Account disclosures and advertisements that contain rate information also must disclose the account's "annual percentage yield" and "interest rate". Both of these terms have very precise meanings under the regulation and must be calculated as specified. Likewise, periodic statements must disclose the "annual percentage yield earned".

When compliance with the regulation becomes mandatory, depository institutions must notify existing consumer account holders of the availability of account disclosures or, in the alternative, an institution may simply provide its account holders with the account disclosures themselves. Also after the mandatory compliance date, institutions must provide consumers with prior notification of changes in key account terms and they must provide notification of the maturing of time accounts.

The act and the regulation impose significant new requirements with respect to the payment of interest. All interest payments must be based on a 365 day year and can not be based on a 360 day year. Interest must be paid on the full amount of the principal balance and can no longer be paid on a "low balance" or an "investable balance".

If an institution fails to comply with Truth in Savings, it will be subject to enforcement action by its primary federal bank regulator. The act also authorizes private actions to be brought either by an individual or by a class of individuals suffering damage because of non-compliance.

Under the act, Congress required the Board to provide institutions with model disclosure forms. These model forms are found in Appendix B of Regulation DD. If an institution uses these forms, it will be deemed in compliance with the disclosure requirements of the act.

If an institution does violate the act, it can still avoid liability if it corrects its mistake and informs its customer (1) within 60 days of discovering the error, (2) before a court action is instituted against it, and (3) before it receives written notification of its violation from its account holder.