

The sixth observation is that there are at least eight methods for figuring the rate. I wish to emphasize that it is tremendous that we have now moved off of this issue as to what system to use, constant ratio method, et cetera, down to the actuarial rate. This is real progress.

I would like to emphasize that although we refer to this as the annual rate, what really happens is that this annual rate is merely the annual expression of a more basic rate.

For example, savings banks now advertise 5 percent. They don't pay 5 percent—really—but if they are advertising 5 percent compounded quarterly—it is really 1.25 percent a quarter.

Mr. HANNA. I want to ask you, right at this point when you make a distinction between rate and yield—because I think what you are saying bears right on that, does it not?

Mr. MORSE. Yes, it does.

There is no trickery involved here; a 5-percent compounded quarterly will yield \$5.09 or 5.09 percent. The nominal annual rate is 5 percent per year. It is based upon the time when you figure the interest—if interest is figured, in that case, quarterly and 4 times 1.25 gives you the nominal rate, in name only, and the bill does provide for this nominal annual percentage rate disclosure.

Mr. HANNA. What you are suggesting is that it would be an actual rate then that would be expressed if you went actuarially on the yield—the yield gives the annual rate?

Mr. MORSE. The yield is what you will take home. The nominal rate is what you would be quoted. Going back to the first Consumer Advisory Council report we recommended that the rate be similar to that used by savings institutions. We are keeping the savings bank system.

Mrs. DWYER. Mr. Morse, which is the most accurate rate for the customer?

Mr. MORSE. The customer—

Mrs. DWYER. What he takes home, 5 or 5.9?

Mr. MORSE. Customers will take home zero dollars because they might withdraw just the day before payroll. The bank doesn't know what yield the individual is going to get only under certain circumstances. But customers know and the bank knows—they know that we are going to pay at the rate of 1.25 percent per quarter. This is an accurate statement. If you leave your money there it will accumulate interest and will pay 1.25 percent per quarter. This quarterly rate is the natural or nuclear rate. This is the basic unit. Now, you can express this in annual terms by multiplying by 4 which would make 5 percent.

Mrs. DWYER. How many savers really know this?

Mr. MORSE. Judging from much of the advertising, particularly by the savings and loans that have now advertised—I have a quote here is my pamphlet from a west coast savings and loan—this is a few years ago—all paying 4.85, but because of their compounding you can make 4.94, except from one.