



State of Washington

DEPARTMENT OF FINANCIAL INSTITUTIONS  
DIVISION OF CREDIT UNIONS

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April 9, 2008

TO: Washington State-Chartered Credit Union CEOs

FROM: Linda Jekel, Director of Credit Unions **DCU Interpretive Letter I-08-03**

Re: Clarity of consumer disclosure on “interest” vs. “dividend” payments

Under Washington law, a state-chartered credit union may pay its members interest or dividends<sup>1</sup>. “Interest” is compensation, fixed by agreement, for the use of money, with rights generally enforceable by contract. “Dividends” are discretionary payments, distributed from authorized sources, upon approval by boards of directors. Both pay investors in amounts expressed as an “APY” (“annual percentage yield”).

Unfortunately, many credit unions, and the general public, use the terms “interest” and “dividends” interchangeably, but they are technically two different things. Federal Truth in Savings laws require financial institutions to be clear in their advertising, and avoid statements that may be misleading, inaccurate or untrue.

Credit unions are advised to review all forms and advertising materials, including the information on their web sites. Where the term “CD” (“Certificate of Deposit”) is used, the payment to members is truly “interest,” and therefore a contractual right. Otherwise, the investment is actually a “share certificate,” not a “CD” and a credit union must disclose that the share certificate pays a dividend, and not interest.

Since both interest and dividends are allowed for state-chartered credit unions, and every credit union is responsible for handling its own consumer disclosure, it is important to verify that the terms are being used correctly. Check all the “fine print” and footnotes on all consumer disclosures and advertising, making certain that the terms “interest” and “dividend” are used accurately and consistently, not interchangeably.

Please contact me at 360-902-8778 if you have any questions regarding this Interpretive Letter. This letter is intended as a general interpretation of law. The Department of Financial Institutions does not provide individual legal advice. This interpretive letter does not imply a retroactive cause of action.

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<sup>1</sup> RCW 31.12.402(3), RCW 31.12.402(14), RCW 31.12.416, RCW 31.12.418 & RCW 30.22.