

# finPOWER Connect – Deposit Interest Guide

10 November 2021

## Overview

This document covers Deposit Interest, both the Interest and corresponding Payout transaction if applicable.

## Fixed Term Deposits

- Typically, there are no Withdrawal or Additional Investments allowed for Fixed Term Deposits.
- This means the only Transactions during the Term of the Investment are:
  - Interest Transactions.
  - Interest Payout Transactions.
- Therefore, it is safe to process Transactions in advance of today.
  - Account Processes for Interest Transactions, including Interest Payouts, can be done on Friday for the weekend.
  - Interest Payments for the weekend could be sent to the Bank for payment on Friday.
    - ✦ So, Friday, Saturday and Sunday's Interest is processed on the Friday.
    - ✦ The Interest Payout Transactions are dated on the Friday, Saturday, or Sunday (as normal).
    - ✦ The Bank Transactions are exported and dated Friday.

## On Call Deposits

- There may be Withdrawals or Additional Investments on any day.
- Therefore, until all the Transactions have been processed for the day, including importing Bank Transactions from the day before, Account Processes, including Interest should not be processed.
  - This is why Run Account Processes defaults the previous day for Interest Transactions and Statements.

## **Interest Transactions (Credit Interest and Payout)**

- The Interest Transaction is dated and treated as at the end of the day, i.e., overnight.
  - It will show after other transactions for the day.
- The Payout Transaction may be dated the same as the Interest Transaction.
  - If dated the same day as the Interest Transaction:
    - ✧ It is treated as at the end of the day, i.e., overnight.
    - ✧ It will show after other transactions for the day.
    - ✧ The "Schedule Type" is "Interest Payout".
  - Otherwise, it may be moved forward and therefore:
    - ✧ It is treated as occurred during the day, i.e., it affects the Balance on the date of the Transaction.
    - ✧ The "Schedule Type" is "Interest Paid Out" or "Transaction" (see Process Interest Payouts later).
- That means if dated 31/03/2021:
  - Interest calculated includes the day 31/03/2021.
  - The balance that interest is calculated on 31/03/2021 does not include:
    - The Interest Transaction itself.
    - The Interest Payout Transaction (if dated on the same day).

## **Compounded Interest**

- There is no payment so no issues around when the investor will receive funds in their Bank Account.

## **Paid via Cheque or Direct Credit**

- finPOWER Connect does not allow the dating of Interest Payouts prior to the current date.
  - This is because you can only create a Payment via the Banking System for today and the future.
- Fixed-Term Deposits.
  - Could be processed early and paid early if the Finance Company wishes.
  - See later section "Paying Early".
- On-Call Deposits.
  - Cannot be processed early as Transactions may still be processed throughout the day.
  - Therefore, Tuesday's Interest would be processed on Wednesday.
    - ✦ But, you can't payout Interest to the Investor via the Banking System for a previous day.
    - ✦ But, the Payment should be made on the Wednesday to the Investor.
- So, what happens to the Interest Payout if the Interest Transaction is processed prior to today?
  - The Interest Payout will be rolled forward to the next Banking Day.
    - ✦ If this is on or after today it will be processed.
      - The Interest Payout will have a Schedule Type of "Interest Paid Out" and its effective date will be the date of the Transaction, i.e., not overnight.
    - ✦ Otherwise, it will not be processed and effectively compounds the Interest.
      - You may run the Process Interest Payouts wizard to payout outstanding Interest.
- Moving Payments from a non-Banking Day forward to a Banking Day.
  - What if Interest is dated on a non-Banking Day?
  - There is a setting on the Deposit Account Type to "Roll Interest Payout Date forward if it falls on a non-Banking Day?".
  - This means, for example, if the Interest Transaction is posted on a Saturday the Interest Payment will automatically be moved and paid on the Monday.

## **Transfers**

- Transfers move the Interest credited to the Deposit Account to another Account within finPOWER Connect.
- There is no "Payment" via the Banking System, so there is no restriction with regards Banking.
  - A Transfer can occur on any day of the week.
- Note, the Transfer is dated the day after the Interest Transaction.
  - This is because the Interest Transaction is not part of the balance on that day.
- finPOWER Connect restricts the date of Transfers.
  - Transfers can be processed on the next Banking Day with a grace period of a further two Banking Days.
    - ✦ Note, the two Banking Day grace period is a hard rule that cannot currently be configured.
  - That means if Interest is credited on Friday and due to be transferred on Saturday, finPOWER Connect will allow you to process that up until the next Wednesday.
    - ✦ The next Banking Day is Monday and allowing 2 grace days is Wednesday.
  - If Interest is credited on Tuesday and transferred on Wednesday, you have until Friday to process it.
  - If the Transfer is not made, the Interest is effectively compounded until the next Interest cycle.
- For example:
  - Friday
    - ✦ Process Interest to Thursday.

- ✧ Thursday's Interest credited and transferred on Friday.
- Saturday, Sunday – closed
- Monday
  - ✧ Process Interest to Sunday.
  - ✧ Friday's Interest credited and transferred on Saturday.
  - ✧ Saturday 's Interest credited and transferred on Sunday.
  - ✧ Sunday's Interest credited and transferred on Monday.
- Tuesday
  - ✧ Process Interest to Monday.
  - ✧ Monday's Interest credited and transferred on Tuesday.

## Capitalised Interest

- Moves the Interest value to Principal.
  - This depends on the Element defined on the Account Type.
- There is no "Payment" via the Banking System, and it is not transferred to another Account; so, there are no date restrictions.
- Note, the Capitalisation Transaction is dated the day after the Interest Transaction.
  - This is because the Interest Transaction is not part of the balance on the day Interest is credited to the Account.

## Process Interest Payouts

- Where a Payout or Transfer cannot be made because it is dated prior to that allowed the Process Interest Payouts wizard allows you to make these payments.
- The "Schedule Type" of an Interest Payment created via the Process Interest Payouts wizard is "Transaction".
  - This means:
    - ✧ It affects the Balance on the date of the Transaction.
    - ✧ It is not shown at the end of Transactions for the day.

## Paying Early

- For Fixed-Term Investments you might consider paying Interest early.
- Even at a high Interest Rate, if Interest is paid early, the compounding effect may not be a significant cost.
- For example, with an Interest Rate of 10%, paying Interest early by one day is the equivalent of 10% or 10% for one day.
  - E.g., Interest on \$100,000 @ 10% paid Monthly =  $\$100,000 \times 10\% / 12 = \$833.33$ . Interest for one day is  $\$833.33 \times 10\% / 365 = \$0.23$ .
  - E.g., Interest on \$100,000 @ 10% paid Quarterly =  $\$100,000 \times 10\% / 4 = \$2,500.00$ . Interest for one day is  $\$2,500.00 \times 10\% / 365 = \$0.68$ .
- Of course, over the entire Investment portfolio this could mount up – if all Interest is paid out rather than compounded.
- If you are considering paying Interest early, then you should factor this into the Interest Rate you will pay.