

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.