Reading Cooperative Bank | For you. By you.

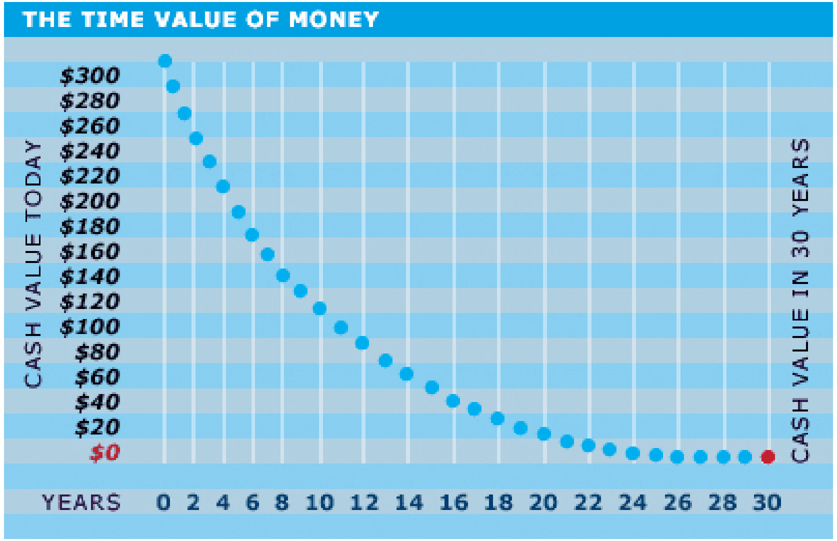
Interest & Long-Term Savings

Time Value of Money

- The earlier you save and the more time you have the better you will be.

$$FV = PV \times (1+i)^N$$

PV = Present value (amount of money today)
FV =Future Value
i = Interest paid by the investment
N = Number of periods the investment will be held



Interest Basics

What is Interest?

- Money earned at a particular rate on money deposited into a deposit account or money paid at a particular rate for borrowing funds from a bank.
- There are two types:
    - **Simple Interest**: Interest is earned based on the principal dollar amount in the account.
        - Principal X Rate X Years = Amount Earned
    - **Compound Interest**: Interest is earned based on the principal dollar amount plus any accumulated interest earned on previous periods.
        - Principal (1 +Interest rate/Times Earned a Year)$^{\text{Time)}}$ – Principal = Amount Earned
- Some times interest is tiered so as the balance changes so does the interest rate.

Deposit Interest

- Annual Percentage Yield (APY) is the interest rate expressed as an annual rate.
- Interest will post to the deposit account either monthly, quarterly, annually, at maturity, etc.

Problem 1

- A customer deposits $5,000.00 into an account earning an interest rate of 1.25%.
- How much interest is earned at the end of the first year?
- What is better, a simple or compound interest rate?

Problem 1 Answer

- Simple Interest:
  - $5,000 X .0125 X 1 = $62.50
- Compound Interest:
  - ($5,000 X .0125)/12 = $5.21 (Interest Earned in Month 1)
  - $(\$5{,}000 + \$5.21)^{12}$ X .0125 = $5,062.86
- You earn more with Compound Interest!

Loan Interest

- Annual Percentage Rate (APR) is the interest rate expressed as an annual rate.
- Your monthly payment on a loan is usually a percentage of the principal plus the monthly interest charged on the outstanding balance of the loan.
- Example: Monthly Loan Payment = $1,530.67
    - $1,000.00 (principal payment) + $530.67 (interest payment) = Monthly PMT.

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Certificate of Deposit

What is a CD?

- A certificate of deposit (CD) is a savings account that pays a higher interest rate than a regular savings account.
- In return of the higher rate, you agree to "lock-up" your money for a certain time frame (this is called the term).
- You are able to withdraw the principal on the day the term ends (this is called the maturity date).
- If you withdraw the principal prior to the maturity date, you are required to pay a bank fee (called an early withdrawal penalty). This can be 3 or 6 months worth of interest.
- You are able to withdraw, change the term, close the CD or add money starting at the maturity date and for a certain number of calendar days (this is called the grace period).

Choosing a CD

- What different terms are there?
- How long do I want to tie-up my money?
- Do I think rates will change in the short or long term?
- What is the minimum opening deposit requirements?
- The longer the term USUALLY means the higher the rate
- Is the bank having any CD specials?

RCB's CD Terms

- In Branch Only
  - 6 Month (182 Day)
  - SPECIAL: 2 Year No Penalty After 12 Months
  - 4 Year
  - SPECIAL: 4 ½ Year Certificate
  - 5 Year
- May be Opened in Branch or Online
  - 1 Year
  - 2 Year
  - 3 Year

Money Market Deposit Account

What is a MMDA?

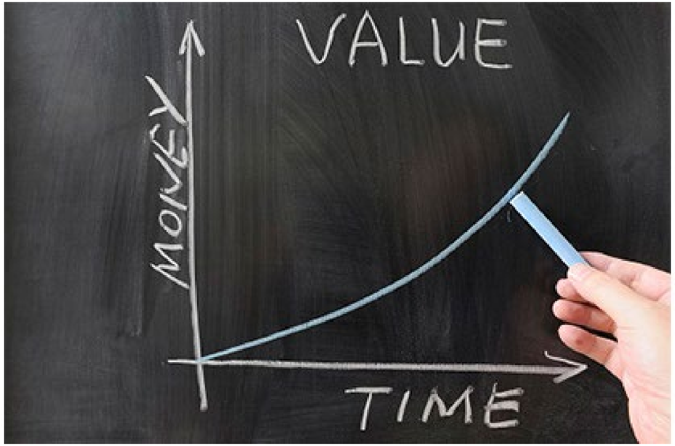
- A deposit account which pays interest based on current interest rates in the money markets.
- Account usually pays higher interest rates in return for higher balance requirements.
- MMDAs have minimum balances and limit the number of transactions, so it is less accessible than other savings accounts.

Choosing a MMDA

- Monthly Fees
- Transaction Limitations
- Balance Requirements
- Funds Availability
- Charges for Checks
- Location/Number of Branches
- Bank Hours
- Online Banking Option to Transfer Funds

RCB's MMDA

- Tiered Interest Rate
- Minimum Balance Required
- Reg D: Limit to 6 transactions per month
- Free Online Banking & Bill Pay
- Paper or E-Statements



Other Savings Options

Individual Retirement Account (IRA)

- IRAs are accounts that you make a deposit to (called a contribution) and you can't make a withdrawal (called a distribution) until you 65 years or older.
- There are two types:
  - Traditional – Contributions are pre-tax dollars and you pay taxes on distributions. You are required to start taking money out at 70 ½ years old.
  - Roth – Contributions are post-tax dollars so you don't pay taxes when you make a distribution.

401(k)

- An account that allows you to set money aside for retirement.
- Your company will deduct a percentage of your pay and deposit it into this account for you.
- Some companies allow it pre-tax while others post-tax.
- Companies usually match your contribution up to a certain percentage (like matching up to 5% of your pay).
    - That means for every 5% you put in, your company will add another 5% so you will be saving 10% overall.

403(b)

- Works like a 401(k) but is for people who work for tax-exempt companies like a public school, college, not-for-profit group.