



Article published on February 18th 2012 | [Finance](#)

Banking system largely functions based on compound interest, so whether you are investing, saving or borrowing a loan by dealing with a bank, you need to know how money grows through this principle. With a thorough understanding of how compound interest works on your money, you can invest wisely and gain back the most from the deal. In fact, with the help of this knowledge, you can save an increasing bunch of dollars for every short period, and thus a lot of money over a long time.

As compound interest works on the principle of adding more interest regularly over various time periods, the final sum of money that is generated as interest is significant. Apart from investing in a bank that has high compound interest rates, you can also save more money by following certain steps in borrowing loans too. For example, when you take a car loan, choose to get it through the bank instead of a consumer loan company. This saves you 2-3% on interest repayments. In the case of mortgage, you can simply ask for a better mortgage rate, as there is scope of negotiation here. Even steps like regular payment of credit card bills on time, and using a line of credit that has a lower rate to repay the credit are small steps to save a decent amount of money.

Saving money, however little the amount may be, is a significant move in terms of compound interest. This is because, the few bunch of dollars, say \$100 that you have save this year could very well be the principle amount that would grow with an interest, say, over the rest of your life, every year. Thus, simply, if you don't have this \$100 to begin with, you would lose the return on this investment that is growing at a higher rate every year than the previous one. At a compound interest rate of 8%, a mere \$100 goes up to as much as \$7,500. Compound interest is indeed about big money, with a much smaller start.

Talking about savings interest rates, an amount of \$1000 that is invested for 36 years at an interest rate as low as 4% would pay you back \$4,100. At an 8% savings interest rate, you would get \$15,970. Further, at a 12% rate, you would end up with \$59,136, calculated on compound interest. Thus, interest rates make a huge difference, more so in the compounding system. As your life's savings mean your major back-up for your retirement plan, you should definitely do some homework on the interest rates, terms and conditions before investing on saving in any bank.

A regular savings program, as a habit is definitely the way to ensure better savings in the long run. Even a slight difference in these compound interest rates implies real security, as different from a hand to mouth living in the lower rates of interest. With the help of a retirement calculator, you can verify which bank offers the best interest compound interest rates and terms for your savings. If you invest wisely, you can rest assured of reap the deserved benefits.

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Article Keywords:

compound interest, credit card interest

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