

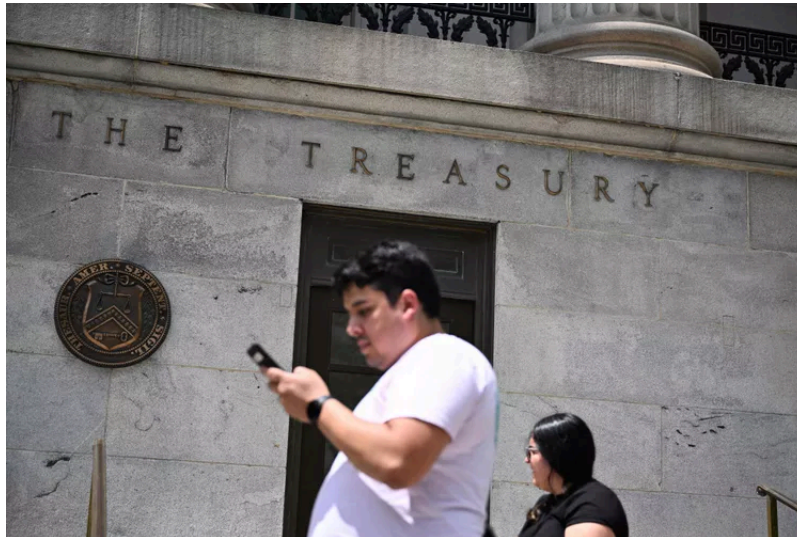
BONDS TREASURY BONDS

Treasury Bonds vs. Treasury Notes vs. Treasury Bills: What's the Difference?

By NICK LIODIS Updated April 12, 2024

Reviewed by JULIUS MANSA

Fact checked by VIKKI VELASQUEZ



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The federal government sells fixed-income securities, including Treasury notes, and Treasury bills, prized by conservative investors for their low risk and predictable income. Treasury bonds are long-term

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are medium-term, ranging from two to 10 years, and are otherwise the same, with semiannual interest payments and the face value when they mature. Treasury bills mature within a year, do not pay interest, and are sold at a discount to the face value that you get at maturity.

KEY TAKEAWAYS

- Treasury bonds (T-bonds), notes (T-notes), and bills (T-bills) are government-issued fixed-income securities that are very low risk.
- T-bonds typically mature in 20 or 30 years and offer the highest coupons or interest, which are paid twice yearly.
- T-notes mature from two to 10 years, with semiannual interest payments but usually lower yields than T-bonds.
- T-bills have the shortest periods before maturity, from four weeks to a year.
- While only the T-bonds and T-notes pay twice-yearly interest, all earn the face value at maturity.
- They are each auctioned at the U.S. Department of the Treasury's platform, TreasuryDirect.

Despite their reputation as conservative, not-very-exciting investments, Treasuries are a major pillar of the world's economy. Treasury bonds, notes, and bills are crucial for both the government and investors. For the federal government, they are a means of raising funds to cover public expenses and manage the national debt. For investors, they are a low-risk investment option—a calm port among the market's often roaring tides—and provide a safe way to earn interest and diversify investment portfolios. But this is also the case for people, institutions, and governments the world over, meaning they don't just provide stability to U.S. investors but to markets worldwide.

Treasury bonds, notes, and bills have different [maturity dates](#) and pay different amounts of interest (usually, the longer the term, the more interest). However, all Treasuries are treated as having no risk of default, since they are guaranteed by the U.S. government. Essentially, if the U.S. government stops paying its debts, the economic shock would make Treasuries the least of your worries. The safety they afford means that Treasuries have a lower potential return than alternative, riskier investments like stocks or corporate bonds. ^[1]




Treasury yields rise and fall, depending on the market and economic conditions. For example, yields fell significantly during the COVID-19 pandemic in 2020. ^[2] Beginning in October 2022, the yield curve for T meaning that shorter-term Treasuries offer higher rates than More typically, investors want more interest the longer the capital. Since the 1950s, [inverted yield curves](#) have been a assuring a rocky economic road ahead, often with a recession months away. The early 2020s inverted yield curve, though the Federal Reserve's actions than anything else. To stave off and 2022, the Fed began raising the federal funds rate sharply almost 0% at the beginning of 2022 to 5.5% in mid-2023. Sl

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As of April 2024, three-month T-bills were offering yields of 5.38%, one-year Treasuries were at 5.13%, 10-year T-notes were at 4.51%, and the 30-year T-bonds were at 4.61%.^[3]

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Treasury Bonds

[Treasury bonds](#) are often called [long bonds](#) because they take the most time to mature out of government-issued securities. They are offered at 20 or 30 years to maturity.^[4]

Features of Treasury Bonds

Once you buy T-bonds, you get [a fixed-interest payment](#) called the coupon every six months. The coupon amount is given as a percentage of the bond's face value. For example, a bond worth \$500 with a coupon rate of 5% would pay \$25 in interest each year.

At maturity, you're paid the bond's face value.^[5] When you redeem bonds with a TreasuryDirect account at maturity, the proceeds are deposited into the bank account on file. Compared with Treasury note bonds usually pay the highest interest rates because investors put money aside for the longer term. For the same reason, interest rates on T-bills are usually lower than on T-notes or T-bonds.

You can wait to redeem your T-bond until it matures or sell it on the secondary market. However, you must first wait at least 45 days.^[4] It's unlikely to get the face value if you sell it before maturity, so there's a loss between what you paid initially and what you get selling it.

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are decided during the auction. T-bonds are also traded in the secondary market and can be bought from a bank or broker.^[5]

Retail investors typically use T-bonds to keep part of their savings risk-free and to receive a steady income during retirement. Treasury bonds can also be used as savings for education or other major expenses. Retail and institutional investors buy Treasury bonds to diversify since they are low-risk, decrease the overall volatility of a portfolio, and provide a steady income stream.^[4]

Important: Treasury bonds, notes, or bills sold before their maturity date could mean a loss, depending on bond prices at the time of the sale. Simply put, the face value is only guaranteed if the Treasury is held until maturity.

Treasury Notes

[Treasury notes](#) are like Treasury bonds but have shorter terms, like two, three, five, seven, and 10 years. Like T-bonds, Treasury notes are backed by the U.S. government.^[6]

Features of Treasury Notes

Treasury notes pay interest every six months until they mature. Typically, Treasury notes pay less interest than T-bonds since T-notes have shorter maturities. Like T-bonds, the yield is determined at auction, and upon maturity, you get the face value of the bond.^[7]

T-notes are also auctioned by the U.S. Treasury and sold in \$100 increments. The price of the note can change based on the auction results. It can be less than, more than, or equal to the note's face value.^[6]

You can redeem them the same way as Treasury bonds, and T-notes, too, can be held until maturity or sold in the secondary market before they mature.^[6]

Treasury Notes vs. Bonds

Treasury notes and Treasury bonds are fixed-income securities issued by the U.S. government but differ in maturity dates. Treasury notes have maturities of up to 10 years, while Treasury bonds have maturities of up to 30 years. Both notes and bonds pay interest every six months and the face value is at maturity. Because of their longer maturities, Treasury bonds generally offer higher interest rates than Treasury notes to compensate investors for the additional risk of holding the securities for a longer period. However, this also means that Treasury bonds are more sensitive to changes in interest rates.

Why Treasury Notes Are Important

The 10-year T-note is the most closely watched government [benchmark rate](#) for banks to calculate mortgage rates. The T-note is in high demand since it's often used to lower the volatility of an investment portfolio.

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and yields. Meanwhile, when the economy is expanding, investors might sell their 10-year notes to have funds for higher-yielding bonds and other investments since there's a reduced risk of loss at those times.

Since the 10-year note is very popular with institutional and retail investors, central banks, and governments, it always has steady demand. This means it has excellent [liquidity](#) should you need to sell it before maturity.

Treasury Bills vs. Treasury Notes vs. Treasury Bonds

	Treasury Bills	Treasury Notes	Treasury Bonds
Maturity	Up to one year	Two, three, five, seven, or 10 years	20 or 30 years
Interest Payments/Coupons	None	Every six months	Every 6 months
Pricing	Sold at a discount	Sold at par, premium, or discount	Sold at par, premium, or discount
Liquidity	High	High	Relatively lower
Interest Rate Risk	Low	Moderate	High

Treasury Bills

[Treasury bills](#), or T-bills, have the shortest terms of all and are issued with maturity dates of four, eight, 13, 26, and 52 weeks. ^[8]

Features of Treasury Bills

Unlike Treasury bonds and notes, T-bills do not pay interest. Hence, they're call zero-coupon bonds. Instead, Treasury bills are [auctioned off to investors at a discount](#) to their face value. Your return, then, is the difference between the face value and the discounted price you initially paid. ^[9]

Suppose you buy a Treasury bill with a \$1,000 face value for \$950. At maturity, you will be paid \$1,000. The \$50 difference between the \$950 purchase price and the \$1,000 face value is considered the interest.

Like Treasury bonds and notes, T-bills have no default risk since they're backed by the U.S. government. As a result, T-bills tend to pay less interest than corporate bonds since corporate bonds have the potential of defaulting, which leads investors to demand more interest to compensate them for the added risk of investing in them. When they mature, the process for rec same as the others.

Treasury Bills vs. Notes

Treasury bonds and Treasury bills are both debt securities government, but they have different maturity dates and pa Treasury bonds have maturities of 20 or 30 years and pay in months. In contrast, Treasury bills have much shorter matu

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Cash Management Bill (CMB)

The U.S. Treasury also offers a short-term security that is like the T-bill called a [cash management bill \(CMB\)](#). The main difference between the two is that a CMB has a much shorter maturity date, ranging anywhere between seven days to three months. CMBs are bought in \$100 increments. ^[10]^[11]

Important: Investors can have their federal tax refund deposited into their TreasuryDirect account to buy securities.

Treasury Auctions

Treasury bonds, notes, and bills are sold through U.S. Treasury auctions on the TreasuryDirect platform. ^[12] The demand for them helps set the rates and yields during the auctions, which can change based on interest rate changes and other market factors.

All auctions are open to the public and can be found on the Treasury's list of upcoming auctions at TreasuryDirect. You can buy securities directly through one of these auctions or your bank or broker.

Auctions are announced several days ahead, with the amount to be auctioned and the maturity date. There are three ways bidding happens:

- **Competitive bids:** You set the acceptable rate, yield, or discount margin. Competitive bids are limited to 35% of the offering amount.
- **Noncompetitive bids:** Here, you agree to the rate, yield, or discount margin set during the auction. Bidders are limited to \$5 million per auction with noncompetitive bids. ^[12]
- **A single-price auction:** This is when Treasury bonds, bills, and notes are sold at the highest rate, yield, or spread of the accepted competitive bids for all competitive and noncompetitive bidders.

The Treasury also auctions previously issued securities, called reopened securities. Like the originals, the reopened securities have the same maturity date and interest rates. The only difference is the issue date and the price.

Tax Implications

The tax consequences for Treasury securities are very similar. The interest you earn from T-bonds, T-notes, and T-bills is taxed by the Internal Revenue Service, but they are free from state and local taxes. ^[13]

If you hold Treasuries, you'll receive a 1099-INT form. For ar TreasuryDirect, as much as 50% of the interest earnings ca your tax bill. You can specify how much you want withheld

How To Buy Treasury Bonds, Notes, and Bills

You can pick up Treasury bonds, notes, and bills through th [TreasuryDirect.gov](#) or from a bank or broker. Since the last through the process, let's prepare you to buy them yoursel

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your account. You'll have to choose the account type: individual, business or organizational, or estate or trust account.

- Let's say it's an individual account. You'll need your Social Security number, your driver's license or state ID number, a U.S. address, an email address, and your bank account information.
- Follow the prompts to complete the registration, including those for your security questions. Make sure to verify your email address at the end of the process.

Linking Your Bank Account

- Enter your bank account information (routing number and account number), both for where the funds will come from to pay for Treasuries and where you'll be depositing when they mature.
- TreasuryDirect will verify your bank accounts. This could include test deposits, which you'll need to confirm.

Purchasing Treasury Bonds, Notes, and Bills

Once your account is set up, log in to TreasuryDirect. Go to the "BuyDirect" tab and choose which security you want to buy: Treasury bills, notes, or bonds.

Next, fill in the details: how much and the time to maturity. You'll then confirm your purchase details and payment method—you'll likely pay directly from your bank account. Once you're ready, hit submit and then you'll get a confirmation for the transaction along with its details.

What To Do at Maturity

You can hold your Treasury bonds, notes, or bills until they mature and let them be redeemed automatically at that time, with the deposit going right into the bank account you selected.

Also, you can reinvest the proceeds into another Treasury security. Before your Treasuries mature, go to your TreasuryDirect account. There, you can set up reinvestment instructions, making it seamless to roll over the matured security into a new one.

If you have Treasury bonds held by your bank or broker, you'll need to check with them about how to redeem your bond. ^[14]

What Are Other Ways To Invest in Treasury Bonds, Notes, and Bills?

Investing in Treasuries isn't limited to directly buying bonds, notes, and bills through TreasuryDirect. Besides getting them through you, another alternative is to invest in mutual funds or one of our traded funds (ETFs) that focus on Treasury securities. These convenient way to gain exposure to a diversified portfolio of the need to manage them yourself. [ETFs for Treasuries](#) trade on major exchanges, giving you far more flexibility than when you do it yourself. You can also choose the fund based on the ETF's maturity dates. Another advantage is that these funds are managed by professional portfolio managers who know how to navigat

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Should I Buy a Treasury Note or a CD?

If you're deciding between Treasury notes or certificates of deposit (CDs), you'll need to weigh the risks, potential returns, the potential for trading them, and tax implications. Treasury notes, backed by the U.S. government, offer a very low risk of default, making them a secure choice for risk-averse investors. CDs are also low-risk since the Federal Deposit Insurance Corp. insures them up to \$250,000. They also usually offer higher coupon rates than Treasury notes, particularly when interest rates are rising.

However, the interest rates on Treasury notes could be higher when there's economic uncertainty, making them even more appealing to those who prefer stability. Treasuries also have the advantage of being more liquid since you can sell them on the secondary market before they mature. CDs typically have early withdrawal penalties, which can diminish your earnings if you access the funds before they mature. They are also treated differently for tax purposes. The interest on Treasury notes is exempt from state and local taxes but not federal taxes, while the interest earned from CDs is taxable at both the state and federal levels.

Which Are Riskier, Treasury Bonds, Notes, or Bills?

Treasury bonds, notes, and bills have no default risk since the U.S. government guarantees them. Investors will receive the bond's face value if they hold it to maturity. However, if sold before maturity, your gain or loss depends on the difference between the initial price and what you sold the Treasury for.

Should I Invest in Treasury Bills, Notes, or Bonds?

Whether you invest in Treasury bonds or bills depends on your time horizon and [risk tolerance](#). If you'll need the money sooner, a Treasury bill with a shorter maturity might be best. If you have a longer time horizon, Treasury notes with maturities of up to 10 years might be better. Typically, the longer the maturity, the higher your return on investment.

The Bottom Line

Investing in U.S. Treasury bonds, bills, and notes provides a measure of safety and convenience, given the ease of using TreasuryDirect today. Whether through direct purchases via TreasuryDirect or indirectly through ETFs and mutual funds, Treasuries are a reliable vehicle for getting interest income while diversifying and lowering the risk in your portfolio.

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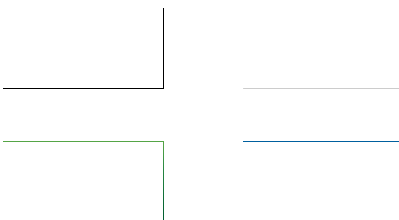
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