

65 Questions to Ask before Choosing a CD

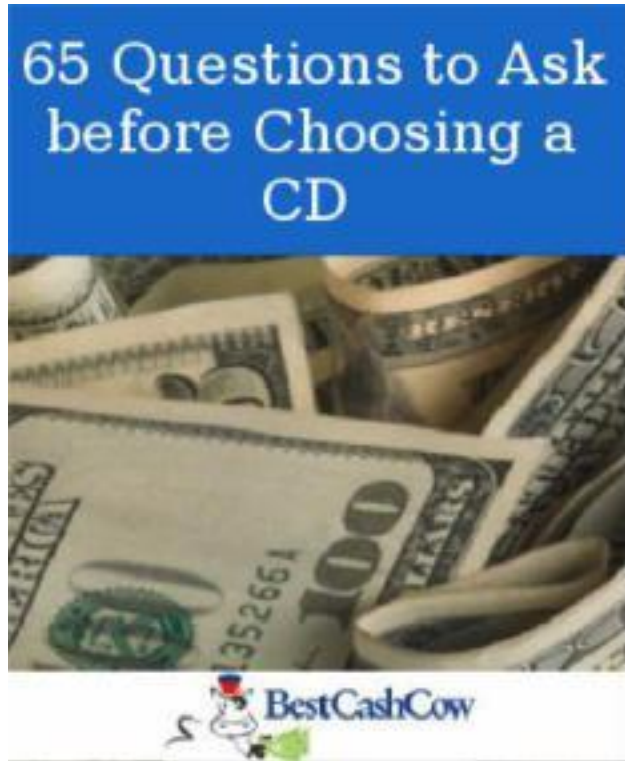


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Chapter 1: CD Basics

What are Certificates of Deposit (CDs)?

CDs, often also called time deposits, are a savings vehicle similar to a savings or money market account, but also involve a contract between the depositor and the financial institution. This contract sets a guaranteed rate (instead of variable one) in return for the depositor's commitment to keep the money deposited until a specified date (the maturity date).

What are advantages of certificate of deposits compared to a savings account?

The advantage of a CD is that your interest rate is locked for the term of the CD. As a depositor in a CD, you do not run the risk that savings rates may fall. You often get a premium in your return rate for agreeing to keep your money tied up in a CD until its maturity.

How do CDs function and how can I take advantage of them?

As a depositor, you need to understand that when you purchase a CD, you are contracting to receive a fixed rate of return in consideration for maintaining your principal in an account until a given date. You can take advantage of CDs by earning a higher rate of return for your cash by contractually agreeing to have it locked up.

To what extent is a CD's interest rate guaranteed?

To the extent that the bank or credit union remains a going concern, it is bound by the contracts that it enters, and since a CD is a contract to pay the interest rate until maturity, it is bound to pay at that rate until a fixed date.

Are the funds in certificates of deposit insured?

Yes, just like savings accounts, the fund in certificates of deposit in FDIC - insured or NCUA - insured institutions are insured so long as you remain within relevant insurance limits. BestCashCow lists only banks that are FDIC insured. Some of the credit unions listed on BestCashCow pages are state chartered and not federally chartered. If a credit union does not have the word "federal" in its title you should click on its name in the BestCashCow rate tables to be taken to its informational page where you will see whether it is

NCUA-insured. While BestCashCow lists certain credit unions that are not insured by, or regulated by, the National Credit Union Administration, we strongly recommend that you open CDs or time deposits only with NCUA-insured (or FDIC-insured) institutions.

How safe are CDs?

CDs are as safe as savings and money market accounts, but you should always stay within FDIC or NCUA insurance limits (within \$250,000 for each class of ownership). In other words, if you have less than \$250,000 between CDs, savings or money market funds and other instruments at a given bank or credit union, then you are protected.

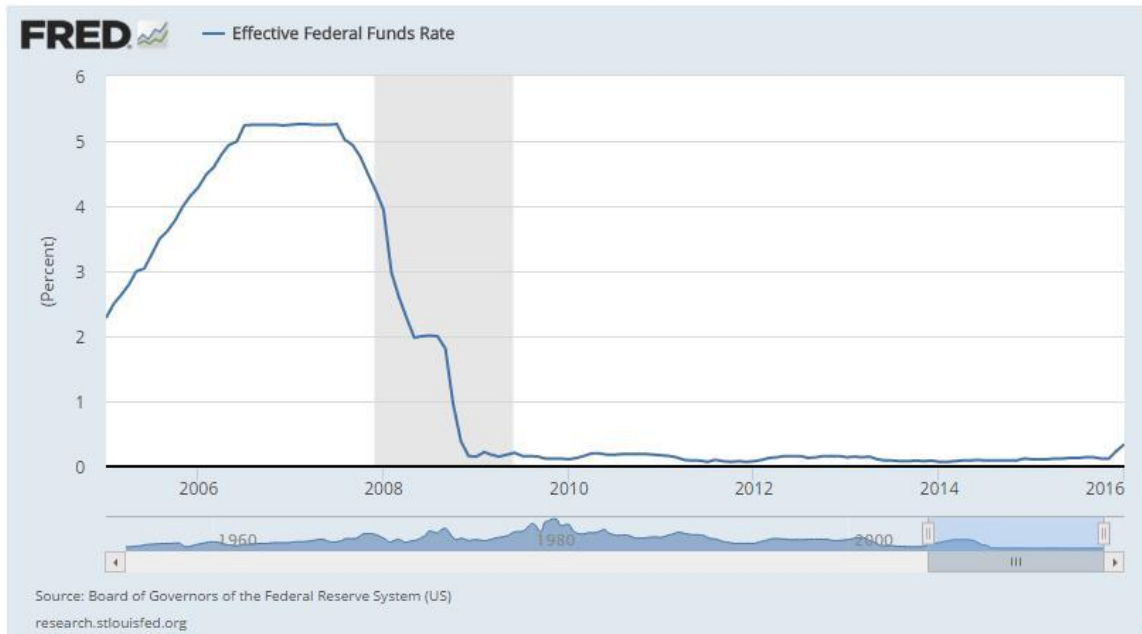
Who should invest in CDs?

Everyone is eligible to purchase CDs. Savings and CDs make up a healthy part of any balanced portfolio, especially following the stock market crash in 2001 and the financial crisis in 2008-2009. Your own risk tolerance levels and personal situation determine the appropriate allocation to savings and CDs. Within this broad category, CDs can and should play an important role.

Is a CD better than a high-interest bank account?

No, not necessarily. CDs enable the consumer to lock in a rate for a given period of time and, as consideration for that assurance, the consumer surrenders liquidity and the right to benefit should savings rates rise. Since 2008, when interest rates began falling dramatically and until 2016, banks have consistently offered one-year CDs with rates better than the best online savings accounts. Over that time, as well, CDs have also consistently outperformed high-interest bank accounts. However, were interest rates to rise – and rise they will one day – the rates in savings accounts will rise, and CDs will not only lack the liquidity of regular savings accounts, but will also deliver inferior returns.

64 Questions to Ask before Choosing a CD



I think interest rates are going to rise quickly over the coming months. Should I still purchase CDs?

No. You should keep the entire allocation of your portfolio dedicated to savings and CDs in savings accounts and consider purchasing CDs again when you feel rates have stabilized at a higher level.

I think interest rates are going to rise slowly over the coming years. Should I still purchase CDs?

Short-term CDs could be an appropriate way to increase yield in some of the money that you have allotted to savings and CDs. With the best savings rates around 1.05% and the best one-year CDs around 1.25%, you can pick up a small but important increase in yield for some portion of your capital, and protect yourself from short-term volatility in rates.

Is a certificate of deposit a good place to keep emergency money?

No. Emergency money should be kept in an online savings [hyperlink: <https://www.bestcashcow.com/savings-accounts/online-rates>] account or a branch savings [hyperlink: <https://www.bestcashcow.com/savings-accounts/rates>] account. Certificates of deposit are a good place to keep money for retirement or for a purchase or event that is more likely to be several to many years down the road. While CDs can usually be terminated

early with payment of an early withdrawal penalty in the event of an emergency, it is important to recognize that banks or credit unions usually retain ultimate discretion as to whether to allow such a liquidation. Therefore, where you are uncertain of your immediate needs for cash, you should always err on the side of having more money in savings accounts than CDs.

I want a long-term savings account for my daughter or son. How should I proceed?

A good place to begin is by creating a custodial account in your son or daughter's name with you as the custodian, and making annual gifts within federal annual gift tax exclusions to that account in each calendar year. (For 2016, the federal annual gift tax exclusion is \$14,000.) If CDs rates are good, and they are better more often than not better than savings rates, CDs are an appropriate investment for this purpose. Please note that as long as you are the custodian, amounts in this account are included in your personal FDIC or NCUA insurance limit with that bank (ordinarily \$250,000, see above).

How can I find out the best current CD rates?

The best current CD rates on online CDs are listed on this page. [hyperlink: <https://www.bestcashcow.com/cd/online-rates>]. By adjusting the tabs on this page, you will see the rates for various durations. From the online CD rate tables, you can also adjust the tabs to review the best current rates offered by branch-based banks and credit unions where you live.

Is it better to open a certificate of deposit with more or less money? (Does the amount of my deposit affect my CD rate? How much money do I need to deposit to get the best rate?)

Many banks have graduated rate scales, offering a certain rate for a deposit of, say, \$500, and a higher rate for deposits of, say, \$50,000, and a still higher rate for a jumbo deposit (\$100,000 or more). In such cases, you will get a higher rate for a larger deposit. In BestCashCow's CD tables, only the highest rate tier is listed so, by using these tables, you can rest assured that you are identifying the highest rates available in the market.

Is there a difference between a credit union "time deposit" and a bank CD?

No. The terms are completely interchangeable by banks and federal credit unions. A certificate of deposit is technically a contract involving a time

deposit. And, a time deposit is an agreement to deposit money over a given time period and there will always be a certificate memorializing the agreement.

How are CDs taxed?

Interest income earned from a CD is reported as interest income on your 1099 in the year in which it accrues.

Are long-term certificates of deposit taxed at lower rates?

No, interest income from all CDs is reported in the year in which it accrues on your 1099 and is usually taxable as ordinary income on your state and federal returns.

Are there taxation differences between income from a credit union (CU) shares versus bank deposits (CDs)?

No, distributions from CU share certificates and time deposits are treated as current interest income, just like interest from bank savings and CD accounts.

Chapter 2

Opening a CD Account

How do I open a CD account?

CD accounts are opened by filling out paperwork online or in a bank's branch.

How can I make my initial deposit into my CD account?

Your initial deposit is usually best made through an ACH transfer from another financial institution where you have your money that is initiated by the bank where you are opening the CD. Most online banks provide for this service free of charge, provided that you enter your correspondent bank's routing number and your account number as part of the application process. Usually, they bank selling CDs will make two small deposits into your account to test that it will work. You will need to log on to your correspondent bank account and then verify these deposits. While the two small deposits are usually sent instantly, the entire process of funding the CD can often take several days. Separately, you can usually mail a check (takes longer) or make an outbound wire transfer from another financial institution (that institution will likely charge you a wire transfer fee).

What happens if the APY changes by the time the funds get deposited into my CD account?

Most banks and all reputable online banks lock the rate when the paperwork is completed. When you use an online bank and direct it to draw funds by ACH from a correspondent bank, the process should be considered complete and the maturity date set at the moment you complete the application, even if the bank doesn't complete the ACH process for several days thereafter. If a bank seeks to change your rate, you should challenge them, and, if necessary, report the matter to relevant state consumer protection agencies.

Are there fees for opening a CD?

No, not ordinarily. Any bank that attempts to charge you an origination fee for opening a CD is one to be avoided.

Will I receive confirmation and additional details after opening my Online CD?

You should receive confirmation either by mail or by email.

Are there monthly maintenance fees for CDs?

No, you should not pay monthly maintenance fees for CDs. Any bank or custodial account that seeks to charge you a monthly maintenance fee for a CD should be avoided.

Chapter 3: CD Purchase Strategy and Pitfalls

Is there a CD that allows additional contributions? (Can I add funds to my CD account?)

In the last few years, CIT Bank and others have offered products that allow “topping up” (adding one or two additional contributions to the CD over the course of the lifetime of the CD). These offerings, however, are very rare. Ordinarily, you can only add to the principal of a regular CD at maturity or within the grace period immediately following maturity.

Are there CD accounts that I can continually deposit money into on a monthly basis?

CDs are contracts and could presumably have any terms so long as they are not illegal or void as public policy. Nonetheless, there are only a few major banks that currently allow regular, continual deposits into CD accounts. More common, but still rare, are CDs which allow “topping up”, or adding to the balance, one or two times during the term of the CD.

What is a bump-up CD?

A Bump-up CD, or a “raise-your-rate CD” is a product that allows you to increase your rate, often once or twice, during the course of the CD, should interest rates rise. These products often carry a lower rate than CDs with comparable maturities (even those with comparable maturities from the same bank). Although these products are not regularly offered, in 2013, bump-up CDs were offered by CIT Bank, by Ally Bank and by Digital Credit Union. Since rates have stayed at very low levels, depositors in these products would have outperformed savings accounts over that time. But, the protection that they bought through these products against rising interest rates would have been unnecessary and they would have performed better in those same banks’ non-bump-up products. BestCashCow analyzed these products at that time [hyperlink: <https://www.bestcashcow.com/articles/are-bump-up-cds-worth-considering-9063>]

How do I invest in long-term CDs without losing liquidity?

Since the purchase of a CD or time deposit involves entering into an contract agreement for a fixed interest rate (usually a higher interest rate) where the depositor is agreeing to keep money there on deposit until a given maturity

date, CDs by their very nature involve the impairment of liquidity. That is the one thing you are giving up – liquidity for the life of the CD contract. There are, however, certain investment strategies that can limit the loss of liquidity that you incur, and the most common of those is CD laddering.

What is CD laddering?

CD laddering is, quite simply, developing a strategy of having multiple CD, each with different maturity dates, so that you can take advantage of rates better than the savings or money market rate while having CDs that mature on a regular basis, from short to longer ter. This way, one will always have access to liquidity.

In an ordinary environment (one with stable interest rates or declining interest rates), a depositor could begin a CD ladder by buying a variety of CDs of different maturities ranging from one-year (or even six-months) to five-years. Then, the depositor can distribute additional deposits in his or her CD ladder, by initiating new deposits towards the longer end as CDs mature.

In 2016, however, we are still not in an ordinary environment. Rates have been held at very low levels for a long period of time, and the Fed Chairwoman, Janet Yellin, has indicated (and reiterated) a desire to raise rates. Still with the best savings rates at or near 1% and the outside possibility of an external event driving rates, a modified CD laddering strategy involving only 1-year CDs can be put in place to provide some protection and minimal downside. That strategy would involve identifying the amount of a depositor's savings and CD capital that can be assigned to CDs (leaving an emergency fund in savings) and then purchasing a 1-year CD with one-quarter of that money every 3 months. At the time when you become fully invested in 9 months, you will always be 3 months from any CD maturity and reset. By purchasing only those CDs that include a three - month early termination fee, this strategy can provide a relatively protective strategy against rising rates.

How can I maximize interest income on a CD?

You maximize interest income on a CD by thinking strategically about the money you are unlikely to need over a particular period or periods of time and then reviewing BestCashCow's list of the best online, local and credit union rates. After you figure out what the time period is, you make a determination of where you feel interest rates are likely go and make a separate determination as to your own risk tolerance regarding the movement in

interest rates. You should always err on the side of the shortest term products that will exceed the current savings rates if you feel rates are likely to rise over the intermediate term. As of this writing the best savings rates are around 1% and one-year CDs are offering around 1.25%. A conservative depositor who has more cash than needed in an emergency, and who believes rates are likely to rise, can maximize interest income by moving a specific amount of money to one-year CDs.

Can I add beneficiaries to my Online CD Account?

Some banks allow you to identify a beneficiary when you open a CD (or later), while others do not. Sallie Mae Bank, for example, allows you to identify a beneficiary, either at opening or later. Some legal commentators have suggested that identifying a beneficiary can enable the CD to avoid becoming part of probate should you die before maturity, but applicable probate rules are always going to be state-specific. If you engage in proper estate planning, there is nothing that can be accomplished by identifying a beneficiary at the time of purchase of a CD that cannot otherwise be accomplished through a testamentary document or a contract. Always consult with appropriate tax, accounting and legal professionals.

How can a certificate of deposit bypass probate?

Depending on the state in which your estate is entered into probate, a CD may bypass probate if a beneficiary is indicated when the CD is initiated. As noted, bank processes do not always allow the designation of a beneficiary when a CD is originated (for example, Sallie Mae allows designating a beneficiary, Colorado Federal Savings Bank does not). There may be other ways to bypass probate, and you should always consult your accountants and tax attorneys on such estate matters.

Chapter 4

CD Ownership and Things to Consider

How is interest credited in a CD?

Ordinarily, interest is credited monthly (but not paid out) on CDs with online banks. CDs opened at brick-and-mortar banks and credit unions may be paid out monthly or quarterly, depending on the general convention followed by the specific bank. Regardless of the frequency of interest credits, all banks are required to indicate the APY rates on CD products, so you should always compare products by APY rate.

Can I receive monthly statements on my CD account?

Most banks deliver either paper statements or electronic statements monthly.

Can I transfer money between my Online CD and other accounts?

You can transfer some or all of your CD principal from your online CD at maturity and before the grace period ends (at which point it usually automatically renews if you do nothing). At that point, you can also add to the principal in your CD by transferring money from other accounts. If you need access to your principal in your online CD prior to maturity, it is ordinarily only accessible with the payment of an early withdrawal penalty. Although rare, banks often retain the right to deny such early withdrawals so you should not invest in CDs if you think you might need the capital before maturity.

Can I open Retirement CDs? Can I buy a CD inside an IRA or 401k?

Yes, many, not most, banks allow CD purchases within an IRA or 401k account or program. Banks sometimes require additional paperwork. Transferring a CD from one held in your own name to an IRA or 401k is ordinarily not possible, and can result in difficult tax consequences, and should not be attempted without consultation with tax and legal professionals.

Can I give a certificate of deposit as a gift?

Yes, but just like any monetary gift, a gift of a CD has gift tax consequences for which you may need to involve an accountant to declare and for which you may owe gift tax consequences in the year in which it is bestowed.

Can a certificate of deposit be used as collateral for a mortgage?

Some lenders allow a CD to be used as collateral for a mortgage.

Would a mortgage lender consider savings in CDs to be as good as cash?

Yes, virtually all lenders will treat a CD as a liquid asset when determining your asset base.

Can purchasing a certificate of deposit improve my credit score?

No, there is no indication that the purchase of a CD improves your credit score.

How can I verify the interest rate my account is earning?

You can verify the interest rate that your account is earning by logging into your account online or looking at your most recent bank statement (either online or one mailed to you). If you are not able to log in or find your statement, you can call or visit the bank and inquire.

How can I calculate interest on a certificate of deposit?

Banks are required by law to disclose the annual percentage yield (APY) for savings and CD accounts. They may also disclose an annual percentage rate (APR) that will be lower. APY is the yield that you will earn over the course of a calendar year (be that from January 1 to January 1, or any period) and is more than the APR. \$100,000 deposited into a CD on March 17 at 1.20% APY will have produced a total of \$1,200 in interest by the following March 17. However, the APY rate includes a compounding factor of interest in later payment periods on the interest earned in earlier periods (the real rate of interest). The APR rate will be closer to 1.18% or 1.19%. Therefore, if the CD interest compounds monthly, you will see an interest payment credited in the first few months that is slightly less than \$100 a month, and slightly more than \$100 a month in later months (as you will be earning interest of the interest you have received). If you get a CD that does not compound interest, but that pays it out, you will never see a monthly interest payment of \$100.

How does the APY get applied on a CD that is less than one year?

It doesn't. APY is a term that assumes receipt of the applicable APR rate over the course of the year with compounding interest. You will not see the APY rate if you do not renew, say, a 6 month CD at least once at the current rate, just as you will not see the APY if your savings rate falls, even though it was listed as a certain APY rate on the date you opened the account. If you are opening a CD for a term of less than a year, you can still use the APY rate for comparison purposes.

Can I withdraw money from my Online CD?

When you purchase a CD, you can often indicate if you want the interest to accrue or by paid out on interest payment dates (interest payment dates are usually monthly). If you determine that you want interest to be paid out monthly, you will receive a check or other form of payment each month, but your CD balance will remain the same (if you choose to have it accrued, your CD balance will increase each month).

Otherwise, to withdraw money, you will need to terminate the CD, in whole or in part, for which you will have to pay an early termination fee (see below).

Chapter 5

Early Termination of a CD

What if I need my money from a CD? Are there penalties for canceling a certificate of deposit?

Yes, there are early termination fees for ending a CD before maturity. These fees are disclosed by the bank or credit union in its contractual terms and conditions at the time the CD is originated and you should not purchase a CD without understanding these fees. Often, banks retain the right in the terms and conditions to deny early termination, although it is especially rare that a bank will not allow early termination with the payment or deduction of the fee.

How are early termination fees calculated?

Early termination fees are expressed in terms of months of interest. An acceptable early termination fee for a CD of one year or less is 3 months' interest. Early termination fees for CDs of 18 months or longer is often between 6 months and 1 year of interest. Early termination fees can cause you to lose not only interest but also principal if you terminate a CD in a very early stage of the CD. Banks routinely waive early termination fees in the event of death or adjudged incompetence of the account holder.

More information on early termination fees can be found in this article.
[hyperlink: <https://www.bestcashcow.com/articles/can-you-always-withdraw-your-money-early-from-a-cd-9178>]

What if the customer needs to withdraw some of the CD amount or the entire amount?

There is actually no standard practice on this, and banks and credit unions address it slightly differently in their account agreements. Many banks have stated policies that the entire CD must be terminated early, with payment of the early termination fee calculated on the entire principal balance, in order to extract any capital. However, banks are staffed by rational people who want to continue to earn your business, and adjustments can be made to contracts where doing so is in all parties' interests. Therefore, if you desperately need, say, \$20,000 from a CD with a \$200,000 balance, you should contact the bank to see if it will allow you to withdraw that amount with payment of the fee on only that amount, leaving the \$180,000 intact in the CD.

Is there a formula to decide when to break a Certificate of Deposit (CD)?

While money can usually be withdrawn early from CDs in an emergency, early withdrawal penalties can be onerous and there are no occasions where you should invest in CDs with the anticipation of withdrawing money early. (There are other websites that recommend that you do this. BestCashCow strongly recommends against it. It is a lousy investment strategy and unethical to enter into contracts with the anticipation at the outset of breaking them).

That having been said, it is possible that CD rates could go up so quickly and dramatically that even with the payment of the early withdrawal fee, you could find a new CD until your maturity that would provide you with a better return. Were such circumstance to arise, it would make sense to try to get the CD recast or to consider early termination with payment of the early withdrawal fee.

Chapter 6

CD Maturity, Renewal, Auto-Renewal and Other Options

What are my options when my CD matures?

At maturity, you can either renew the CD with the same bank for the same term, enter into a new CD with the bank for a different term, move your money to a savings account with the same bank, or cash out of the CD and remove your money from the bank. Most CDs will auto-renew for the same term if you do not contact the bank before the expiration of the grace period (usually 7 to 10 days after maturity) to indicate a desire to change products or remove your capital from the bank.

*How do I transfer money out of my mature Online CD account?
(How can a CD be cashed out?)*

At maturity, there is a grace period (usually 7 or 10 days) before a CD automatically renews. At maturity or during the grace period is the best time to exit by moving the money to a savings or money market account at the same bank, or by transferring your money by ACH transfer to an account at another bank. Alternatively, you may request a check be mailed to you.

How soon will I receive the money after a CD matures?

Regardless of how often a CD pays interest, all interest owed should be paid on maturity.

When my CD account matures, will I be charged a fee to have the funds mailed to me?

You certainly shouldn't be charged a fee for having a check mailed to you, especially since the bank makes interest on the float until you receive and deposit the check. You also should not be charged a fee for having the bank or credit union transfer the money back to you by ACH at another bank, and that will enable you to receive the funds and earn interest on them somewhere else more quickly.

Am I notified when my Online CD is maturing?

Some banks, perhaps most banks, will notify you when your CD is maturing. Following maturity, you usually have a defined period in which to opt-out of automatic renewal, and put the money in a savings or money market account with the same bank or ACH it out to a correspondent bank. That period varies from bank-to-bank, but an ordinary period is 7 to 10 days.

Does my Online CD automatically renew at maturity?

According to the terms and conditions, most CDs automatically renew at maturity if you do not opt out of automatic renewal during the grace period. Most online banks will allow you to call several days before maturity and indicate that you do not want automatically to renew. Most banks do not allow you to opt out of automatic renewal in the application, as they hope that you will “set in and forget it” and that the CD will renew.

Will I remember the maturity date?

Use a spreadsheet, financial software or an electronic agenda such as the calendar on your iPhone to note the maturity dates of your CDs, so that you have the opportunity to opt-out of automatic renewal if you will need your principal, or at least check on BestCashCow CD table [hyperlink: <https://www.bestcashcow.com/cd/online-rates>] to see the bank’s CD rates for the term that you will be renewing continue to be among the most competitive.

Can I add money to my maturing CD and change the term of the CD during the grace period (e.g., from 6-month to 12-month)?

Yes, ordinarily a bank allows you to add or remove money from a CD that is rolling over, or to set another CD duration during the grace period.

Chapter 7

CD Pitfalls and Important Things to Consider with CDs

Why are CDs important to banks?

The most important thing to understand about a CD is that it is a contract, and there are two parties to a contract, each seeking mutual benefit (and/or, to offset mutual risk). Just as the depositor seeks to lock in a rate of interest, banks seek the certainty of locking in a rate of interest that they will be paying for a defined period. Prior to the financial crisis in 2008 and 2009 which brought unprecedented low long-term rates, banks have always made money by lending at the long end of the interest rate curve (issuing mortgages, originating construction loans) and borrowing at the short end (savings). Since depositors have the right to draw on savings accounts at any time, banks can lock-in their own borrowing costs by issuing CDs. As a depositor, it is also important to recognize that banks rely on a large percentage of depositors purchasing short-term CDs and forgetting about them so that they are auto-renewed, rather than terminated.

Do yield curves affect CD rates?

Absolutely! The yield curve, and in particular the short and intermediate ends of the curve, are the single biggest determining factor in setting CD rates. Books have been written to explain this matter, but suffice it to say that they determine the rate which banks will want and need to pay in order to lock-in their own borrowing costs over various maturities. As interest rates go up, CD rates (and savings rates) go up, and as interest rates go down, CD rates (and savings rates) go down. US interest rates have been at unprecedented lows since 2009. If you believe that this represents a generational transformation, CDs may represent an opportunity for you. If, however, you believe that rates are more likely to quickly revert to a pre-2009 historical norm, you would want to avoid any CDs with maturities longer than a year.

Since yield curves are generally more volatile and unpredictable at the longer end, longer term CDs represent a larger gamble for both depositors and issuing banks.

What are brokered CDs?

Brokered CDs are those sold through a broker, but issued by an underlying bank and usually for the explicit purpose of being sold through a particular

broker. In recent years, TD Ameritrade and other online brokerages [hyperlink: <https://www.bestcashcow.com/online-brokerages>] have been aggressive sellers of brokered CDs on behalf of Amex and other banks. One such issue was discussed here [hyperlink: <https://www.bestcashcow.com/articles/amex-offering-a-5-year-cd-through-td-ameritrade-at-2.40-9164>].

BestCashCow strongly recommends against brokered CDs. First and most importantly, brokered CDs do not have early withdrawal terms and their fee structures are often less attractive than regular fees. For example, if you need your capital, you are forced to sell the CD through the broker. Since the broker usually does not make much of a market in the product after they initially syndicate it, you or your estate can take a serious loss trying to liquidate a brokered CDs. Second, you will always find a better rate on a CD purchased directly from a bank on BestCashCow's rate tables [hyperlink: <https://www.bestcashcow.com/cd/online-rates>]. Third, these CDs are usually long-term in nature (longer than 5 years) and BestCashCow strongly recommends against purchasing CDs with maturities longer than 5 years. While not FDIC-insured, structured notes, as contrasted with brokered CDs, are more interesting long-term SEC regulated products which you can buy through traditional brokers and that offer much better returns than brokered CDs. These should be considered by those willing to live without early withdrawal terms [hyperlink: <https://www.bestcashcow.com/topics/structured-notes>].

How do I find a CD broker? How can I ensure that a CD sold by a brokerage is FDIC protected?

Any reputable broker is only going to sell brokered CDs that are FDIC-protected. However, if for example, you purchase a Chase-issued CD through TD Ameritrade, you need to consider whether that particular CD puts you over your \$250,000 FDIC-insured total limit for all your assets with Chase. As noted above, BestCashCow strongly recommends that you avoid all brokered CD products. As this article [hyperlink: <https://www.bestcashcow.com/articles/avoid-fraudulent-websites-purporting-to-offer-better-rates-through-brokered-cds-9107>] explains, it is imperative that you avoid brokers you come upon on the internet, no matter what they purport to be selling.

If CDs have various rates of default, how can I pick a low-risk CD?

Banks have default risk, but CDs are fully insured by the FDIC or NCUA so long as you stay within established insurance limits. As long as you have less than \$250,000 within each class of ownership (not asset class, but class of ownership) at a financial institution, you do not need to worry about default risk. BestCashCow provides more information on FDIC and NCUA insurance in this article [hyperlink: <https://www.bestcashcow.com/articles/now-is-a-good-time-to-check-your-fdic-and-ncua-coverage-9187>].

What will happen to my CD if the issuing bank collapses?

Were a bank or credit union to be seized by the FDIC or NCUA, you will receive your CD principal and any accrued interest, but the remaining term can be cancelled even if the FDIC's action results in an immediate acquisition of the bank's assets by another bank. The acquiring bank has some discretion as to which liabilities it wants to honor when the FDIC is involved. This, however, may be contrasted with a straight acquisition by another bank where the remaining term and rate is not impacted (the acquiring bank may not impair the obligations of the bank it has acquired).

Investing in foreign CDs, is it worth the risk?

No. Advertisements and direct contacts offering "fantastic" CD rates from banks in India or elsewhere that you have never heard of should be treated as spam and deleted. US investors should invest only in US banks and take advantage of FDIC and NCUA insurance. Likewise, foreign currency CDs offered by US banks should be avoided. In 2000 and 2001, tons of investors lost fortunes in foreign currency CDs at Everbank that neither the bank nor they understood. These investors lost significant amounts of their principal and, in some cases virtually everything, as the currencies on which they were based collapsed against the US dollar. There are tons of much better ways to take advantage of opportunities in foreign currencies and foreign markets involving much less risk to principal. Your CD accounts, like your savings accounts, should be reserved for money that you cannot afford to put at risk. US depositors who operate principally in US dollars should avoid foreign currency CDs and the banks that offer them.

Is a CD a security?

No, a CD is not a security under the 1933 Securities and Exchange Act because it is viewed as a bank deposit product, akin to a savings account with a time element. Some banks, such as Everbank, have used the loophole in

the 1933 Act to offer instruments that involve a risk of principal while calling these instruments CDs (emerging market CDs, foreign currency CDs, precious metal CDs, interest rate-based CDs). BestCashCow strongly recommends that CD products involving a risk to principal be avoided [hyperlink: <https://www.bestcashcow.com/articles/everbanks-3-year-marketsafe-brics-cd-is-not-a-certificate-of-deposit-at-all-9127>].

What government agencies regulate CDs?

CDs are regulated like savings or other deposit accounts at financial institutions. The Federal Reserve's Board of Governors oversees state-chartered banks and trusts that belong to its system, and the Office of the Controller of the Currency regulates major financial institutions that have the words National or National Association after their names. The FDIC regulates all other banks and the National Credit Union Administration regulates all federally-chartered credit unions. If you have any concern about a CD that you have purchased, your best recourse is often to direct your inquiry to relevant state regulators in the state where the selling institution is incorporated and state consumer protection agencies in your state of residence. As noted above, BestCashCow strongly recommends against brokered CDs, however, if you purchase a CD from a broker, you have the additional recourse of being able to file a complaint with the brokers' regulators, including the SEC.