

Are CDs A Good Investment For You?

Do you have any CDs? No, not the latest George Strait compact disc, but the “Certificates of Deposit” kind.

A certificate of deposit (CD) is a special type of deposit account with a bank or savings institution that typically offers a higher rate of interest than a regular savings account. CDs are low-risk investments that are federally insured up to \$100,000. If you have other accounts with the institution, make sure that you have set them up so that all are insured. The FDIC has a tool called EDIE that you can use online at www.fdic.gov.

How Does a CD Work?

When an individual purchases a certificate of deposit, he invests a fixed amount of money for a fixed period of time ranging from one month to 10 years or longer. The financial institution issuing the CD pays the investor at regular intervals. When it is time to cash in the CD, the investor receives all of his original investment, plus any interest that has accrued over the time period. However, if the investor redeems his CD before the maturity date, he will have to pay an “early withdrawal” penalty. The penalty for withdrawing within the first week is set by law. However, otherwise it is fixed by the institution.

While CDs originally paid a fixed interest rate until the CD matured, today’s investor can choose from variable rates, long-term rates or a special redemption feature in the event of the owner’s death. You may compound interest or have it paid to you by check or electronic transfer.

Before investing in a CD, be sure to read all of the disclosure statements and don’t hesitate to ask your banker for help in understanding any questions you may have. Make sure you



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understand when the CD matures. Some CDs automatically renew. The rate typically changes at renewal. The institution is required to give you an advance notice of the changed rate.

Some CDs give the issuing financial institution the right to terminate the CD after a set period of time, but the investor may not have the same right. Make sure to

investigate any call features of the CD. Typically callable CDs are sold by brokers—sometimes over the phone. Your State Securities Board should have a helpful checklist to use in evaluating these as investments.

Keep in mind that although CDs are a safe investment, interest rates are locked in. While this is good in a bad economic market, if rates go up, you’re stuck with a locked in rate unless you have a variable rate CD with a good index.

CDs can be a good investment for young and old alike. For younger people, a high yield long term investment with a maturity date of 18-20 years may be a good investment. However, if you’re 55 or older, you might prefer a CD with a shorter maturity date. Many Americans may be hesitant to deal with today’s volatile stock market. They want to know their money is safe, federally insured and will provide them with a predictable source of income.

Check with your local community banker to see if a CD is right for you. While you’re at it, go ahead and buy the latest George Strait CD as well.

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Note: These tips are intended to provide accurate, yet general consumer information. They are not intended to provide legal, accounting or other professional services. Please contact a professional service provider for specific questions.