

8 tips for buying a CD

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Certificates of deposit are no longer the vanilla of the investing world.

They can have odd lengths of maturity, variable rates and other special features. That means it's more important than ever to be a knowledgeable consumer.

The Securities and Exchange Commission, which oversees the selling of CDs and other financial products, offers the following tips for investors who are considering buying CDs:

- **Find out when the CD matures**

Many investors fail to confirm the maturity dates for their CDs and are later shocked to learn they've tied up their money for five, 10 or 20 years. Before buying a CD, ask to see the maturity date in writing.

- **For brokered CDs, identify the issuer**

Because FDIC insurance is limited to a total aggregate amount of \$100,000 for each depositor in each bank or thrift institution, it's important that you know which bank or thrift issued your CD. Find out where the deposit broker plans to deposit your money. Ask what record-keeping procedures the deposit broker has in place to assure your CD will have federal deposit insurance.

- **Investigate any call features**

Callable CDs give the issuing bank the right to terminate the CD after a set period, but they do not give you that same right. If the bank calls or redeems your CD, you should receive the full amount of your original deposit plus any unpaid accrued interest.

- **Understand the difference between call features and maturity**

Don't assume that a "federally insured one-year non-callable" CD matures in one year. If you have any doubts, ask the sales representative at your bank or brokerage firm to explain the CD's call features and to confirm when it matures.

- **Confirm the interest rate you'll receive and how you'll be paid**

You should receive a disclosure document that tells you the interest rate on your CD and whether the rate is fixed or variable. Be sure to ask how often the bank pays interest -- for example, monthly or semiannually. Confirm how you'll be paid -- for example, by check or by an electronic transfer of funds.

- **Ask whether the interest rate ever changes**

If it's a variable-rate CD, make sure you understand when and how the rate can change.

- **Research penalties for early withdrawal**

Find out how much you'll have to pay if you cash your CD before maturity.

- **Ask whether your broker can sell your CD**

Some brokered CDs are issued in the name of the deposit broker. Sometimes, the

deposit broker may advertise that the CD does not have a prepayment penalty for early withdrawal. In that case, the deposit broker will try to resell the CD if you want to redeem it before maturity. If interest rates have fallen since you bought your CD and demand is high, you may be able to sell for a profit. But if interest rates have risen, there may be less demand for your lower-yielding CD. That means you may have to sell the CD at a discount and lose some of your original deposit.

For more detailed advice, visit the [investor assistance section](#) of the SEC Web site.