

What are Certificates of Deposit?

Bank deposits have a special role in the economy as a significant source of funds for banks, savings and loans and thrifts. Banks lend money to businesses, homeowners, corporations and others for years at a time. In order to balance their assets versus liabilities, they must also attract funds that will remain on deposit for a fixed term.

Certificates of Deposit (CDs) are, quite simply, "time deposits" that earn a contractual rate of interest over a specified period of time. Investors agree to lend money to a bank for a fixed period of time and, in return, investors receive a stated rate of interest, paid in various installments, over the life of that "loan". Because investors give up the right to withdraw their money at any time, they receive a higher interest rate than on demand accounts, such as savings or money market accounts.

What are Brokered CD's?

Most investors are familiar with the type of CDs that can be purchased at a local bank branch. Many banks are highly motivated to gain depositors beyond local walk-in customers. As a result, numerous banks utilize the nationwide brokerage community for distribution of CDs. CDs obtained in this manner are referred to as Brokered CDs. Like CDs purchased at a bank, or any other bank deposit, Brokered CDs are backed by the full faith and credit of the U.S. Government through Federal Deposit Insurance Corporation (FDIC) Insurance. Brokered CDs are simply Certificates of Deposit of banks sold through financial consultants. CD transactions can be easily executed within a brokerage account with just a phone call to a financial consultant. Investors do not receive physical certificates for their Brokered CDs, but instead receive a periodic account statement detailing their CD holdings.

Early Redemption of a Brokered CD

CDs are most suitable for purchasing and holding to maturity. However, investors may find it necessary to dispose of CDs prior to maturity. An important distinction between Brokered CDs and Bank CDs is the different means for early redemption. Brokered CDs provide an opportunity for investors to sell their CDs at the prevailing market levels, which may be worth more or less than the original amount invested. Early withdrawal penalties and/or placement fees may be applicable.

Brokered CD Advantages

Through Brokered CDs, investors have access to CDs from many institutions across the country. Investors can choose from a wide selection of maturities and coupon frequencies to find the appropriate CD best suited to their particular investment requirements, and also have the opportunity to thoroughly research for the highest yield in the market.

The more you know,
the safer your money.



FDIC Coverage of a Brokered CD

The basic insurance amount is \$250,000 per depositor per insured bank. If an investor or their family has deposits at one insured bank totaling more than \$250,000 they should know that different ownership categories of accounts are separately insured.

Brokered Certificate of Deposit investors may qualify for more than \$250,000 in coverage at one insured bank if they own deposit accounts in different ownership categories. In addition, federal law provides up to \$250,000 in deposit insurance coverage for self-directed retirement accounts, such as Individual Retirement Accounts (IRAs). Investors can obtain expanded FDIC coverage by purchasing CDs from multiple issuing institutions.

Payable on Death Estate Feature

A valuable feature of most Brokered CDs is commonly referred to as the survivor's option, which is designed to protect estate assets. This provision allows for the full withdrawal of the principal and interest in the event of the death or adjudication of incompetence of the beneficial owner, regardless of whether the current market value has fallen. It is important to note that very few fixed-income investments offer this attractive feature.

Fixed-Rate CD's

This is the simplest, and thus most common, type of CD structure in the marketplace. Fixed-Rate CDs can be issued as either a Non-Callable or as a Callable. The CD's coupon, or interest rate, is set at issuance and remains the same until maturity or until the CD is called by the issuing bank. Interest payments are made on either a monthly, quarterly or semi-annual basis, or at maturity for issues of one year or less. Investors who require consistent income may find Fixed-Rate CDs appropriate.

Step-Up CD's

The Step-Up CD is typically issued only in Callable form. It provides a variation on the simple Fixed-Rate CD by offering a predetermined schedule of coupon rates, which begin somewhat below that of current Fixed-Rate CDs and gradually increase over a specified time frame. The coupon may step-up only once or as often as annually until the issuer calls the CD or the CD matures. Step-Up CDs generally attract investors with expectations of gradually rising interest rates.

To learn more about Brokered Certificates of Deposit and how they can be a valuable part of your retirement income plans, please call your IAMS Wealth Management Investment Advisor Representative.

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