

Shopping for a Certificate of Deposit?

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(<https://www.fdic.gov/resources/consumers/consumer-news/esp/2023-11.html>)



FEDERAL DEPOSIT INSURANCE CORPORATION
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Consider these tips for choosing wisely, including ways to avoid scams

A bank certificate of deposit (CD) typically offers a higher rate of interest than a regular savings account, in exchange for you keeping the money for a specified term on deposit, usually from three months to five years or more. Whether you are considering buying a simple, fixed-rate CD or one with more complex features, here are tips for selecting the right CD for your financial needs and goals.

Make sure you are purchasing a “deposit” product issued by an FDIC-insured bank

Not all companies with bank-sounding names are actually banks that are insured by the FDIC. To verify that an institution is FDIC-insured, go to BankFind (<https://banks.data.fdic.gov/bankfind-suite/bankfind>) or contact the FDIC’s toll-free Call Center at 1-877-ASK-FDIC (tel:18772753342). Also, get more information by reading The Importance of Deposit Insurance and Understanding Your Coverage (<https://www.fdic.gov/resources/consumers/consumer-news/2022-08.html>).

If you purchase a CD from a third-party broker instead of directly from an FDIC-insured bank, you will have to rely on the broker to make your deposit and acquire the CD on your behalf. The FDIC does not license or register deposit brokers and an unscrupulous broker could mislead or defraud its customers. If the broker fails to place your funds into a CD at an FDIC-insured bank; your money will not be insured by the FDIC. Also, be sure to review the account agreement and other supporting documentation to confirm you are in fact purchasing a CD and not a financial product that is not insured by the FDIC. To learn more, visit: Is my money insured by the FDIC? What to consider about using a nonbank (<https://www.fdic.gov/resources/consumers/consumer-news/2023-07.html>).

If you purchase a CD issued by an FDIC-insured bank where you already have deposits, make sure that all of your funds are insured

If the new CD combined with your existing deposits at the same FDIC-insured bank would put your total bank deposits above the \$250,000 FDIC standard maximum deposit insurance amount, you may need to take steps to make sure all of your deposits are fully protected. Remember, the \$250,000 insurance limit includes the principal and accrued interest. If you have more than \$250,000 on deposit at a FDIC-insured bank, you can call the FDIC toll-free at 1-877-275-3342 (tel:18772753342) and speak to a deposit insurance specialist who will help to make sure you are fully insured. You can also use the FDIC Electronic Deposit Insurance Estimator or "EDIE" (<https://edie.fdic.gov/>) to verify your deposit insurance coverage. Find more information at Are My Deposit Accounts Insured by the FDIC? (<https://www.fdic.gov/resources/deposit-insurance/financial-products-insured/>).

Know what your deposit agreement says about your interest payments

Some banks are offering CDs with variable interest rates based on a pre-set schedule or tied to the performance of a basket of market indices (such as the S&P 500, bonds or foreign currency). Many market-linked CDs accrue interest only when the CD matures, not every day or every month. More information on deposit disclosures is provided in the January 2021 FDIC Consumer News Article (<https://www.fdic.gov/resources/consumers/consumer-news/2021-01.html>).

Be suspicious if the advertised CD rate is far above the competition

CDs or other products may be offered by a company that is not federally insured, in which case any money invested could be lost if the company goes bankrupt. There is also a common marketing ploy to lure customers with a temporary high CD rate with the goal of eventually selling them something else. A very high interest rate

advertised on an FDIC-insured bank CD could be a scheme created when a finance company or an insurance agent adds a small bonus to the CD to lure people in the door and, eventually, tries to sell the customers uninsured, long-term investments that may not be in their best interest.

Find out if the CD would automatically renew at the maturity date if you do not withdraw the money

If that is the case, check to see if the automatic renewal will be at the “old” interest rate or the current rate at the time of the renewal. If market rates have risen, it may not be to your benefit to renew at the old rate. Determine whether you can terminate the CD early. The terms of most fixed-rate CDs will allow the depositor to pay a fee to redeem the deposit prior to maturity. However, most market-linked CDs do not allow for an early redemption. Also be aware that market-linked and other long-term, high-yield CDs typically have “call” features that give the bank the right to close the account early. A callable, fixed-rate CD could undermine your ability to lock in an attractive, long-term interest rate. Why? If interest rates fall, the issuing bank may decide to call the CD and give you back your money (plus accrued interest) because it can issue new CDs at the lower interest rates.

By making sure you read your deposit agreement closely, you will better understand terms of the CD you are purchasing. These CD shopping tips will help you choose wisely and avoid scams too.

Additional resources:

FDIC Consumer News Banking with Apps

(<https://www.fdic.gov/resources/consumers/consumer-news/2020-11.html>)

Fact Sheet: What the Public Needs to Know About FDIC Deposit Insurance and Crypto Companies (PDF)

(<https://www.fdic.gov/news/fact-sheets/crypto-fact-sheet-7-28-22.pdf>)