



Callable CDs - Read the Small Print

Certificates of deposit (CDs) are an attractive saving instrument for individuals seeking a low-risk investment that can be converted into cash fairly readily. CDs require an investment for a fixed period of time such as six months, one year, five years or more. In return, CDs offer higher interest rates than a regular savings account and are federally insured.

When considering a CD, be careful of CDs that are “callable.” Callable CDs allow the bank, **but not the investor**, to terminate or “call” the CD after a set period of time. These CD contracts can sound promising because of their high interest rates, but they can be misleading and **can tie up funds for years**.

There are a number of cases where investors purchased CDs advertised as “callable after one year.” Many investors assumed this meant that, after one year, they would have access to their funds. However, here’s the catch—**the callable date is NOT the maturity date**. In some cases, elderly individuals were sold such CDs only to find that the CDs did not mature for 20 years. If an individual has to take her money out sooner, she will be hit with large penalties for early withdrawals

Your ability to lock in a good interest rate for a long time is restricted with a callable CD. If interest rates fall, the issuing bank might call the CD. In that case, you should receive the full amount of your original deposit plus any unpaid accrued interest. But you'll have to shop for a new one with a lower rate of return.

The SEC offers the following tips for ensuring that you get what you think you are getting when investing in a CD:

- **Find out when the CD matures.** Ask to see the maturity date in writing, and remember that a callable date is not a maturity date.
- For brokered CDs, **find out where the CD will be deposited** and verify that it will be federally insured.
- **Investigate any “call” features.**
- **Confirm the interest rate** and find out whether it is fixed or variable.
- **Understand the penalty** provisions for early withdrawal.

Find out more at: www.wiserwomen.org



Like us on **Facebook** (facebook.com/WISERwomen)



Follow us on **Twitter** (@WISERwomen)



Connect with us on **LinkedIn**