

News from the ND Securities Commissioner

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INVESTORS GET HELP FOR CERTIFICATES OF DEPOSIT

Handy Checklist Available from the North Dakota Securities Commissioner

Bismarck, ND – While the volatile stock market can make certificates of deposit appealing to investors, some CDs aren't what they seem. That's the message behind a handy checklist now available from the North Dakota Securities Commissioner.

With many elderly investors complaining they've been misled into buying "callable" CDs with 10- to 30 -year maturities, state securities regulators hope investors will use the checklist to avoid getting stuck with something they don't want.

"Not all CDs are created equal, so investors need to ask questions and understand exactly what they're buying," cautioned Karen Tyler, North Dakota Securities Commissioner. "Callable CDs often have higher yields than traditional bank-issued CDs because they require a 10-, 20- or even 30-year commitment. Investors should be careful and ask the questions on the checklist to make sure they know what they're getting into and whether it meets their investment objectives," said Tyler. The fill-in-the-blank checklist consists of 13 questions designed to help investors distinguish between traditional bank-issued CDs and callable CDs. While usually offering higher returns, there are substantial penalties for cashing callable CDs before their maturity date.

According to Tyler, many investors don't realize that with callable CDs only the issuer, not the investor, can "call" or redeem the CD. Investors who want their money

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before a callable CD matures risk a substantial loss - as high as 30 percent – regulators warn.

Callable CDs are being marketed via newspaper ads, high-pressure telephone solicitations and direct mail, according to Tyler. In many print ads, regulators note, the CD's interest rate is trumpeted in large print while its maturity date is buried in small type and technical jargon.

Before purchasing any CD, the checklist prompts investors to learn its maturity date, where the money will be deposited, the penalties for early withdrawal, any costs associated with selling before maturity and whether the interest rate is fixed or variable.

The Office of the North Dakota Securities Commissioner can also provide answers to questions about investments as well as the stockbroker or brokerage firm selling them. For more information call (701) 328-2910 or ND Toll Free (800) 297-5124.

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For further information, contact:

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Callable CD Checklist

Investors often turn to federally insured certificates of deposit, sold by banks or brokers, when stock markets are volatile. Rising interest rates and stock market drops have made CDs more attractive, especially to older investors. But what many investors don't realize – and some stockbrokers apparently aren't adequately disclosing – is that, unlike traditional CDs, with “callable” CDs only the issuer, and not the investor, can redeem the CD without a substantial penalty. Callable CDs are being marketed via newspaper ads, telephone solicitations and direct mail.

Before choosing any investment, it is important to determine how it will fit with your financial goals and your tolerance for risk and will make sense given your income and living expenses.

If you're considering purchasing a “callable” or “brokered” CD, become familiar with the following terms. Also, ask the questions on the worksheet when you discuss CDs that are being offered by a broker.

Glossary of terms:

1. **CD or Certificate of Deposit:** A type of deposit account that may offer a higher rate of interest than a regular savings account.
2. **FDIC or Federal Deposit Insurance Corporation:** In the event of a bank failure, federal deposit insurance protects deposits up to \$100,000 per depositor that are payable in the United States. You can verify that the bank is FDIC-insured by calling the FDIC hotline, (800) 934-3342.
3. **Call Feature:** The issuing bank or brokerage firm, not the investor, may choose to terminate or “call” the CD after a fixed period of time and pay back any principal with interest. For example, a “one-year callable CD” may be “called” by the bank or firm after a year if interest rates fall.
4. **Maturity Date:** Ask to see the maturity date in writing. CDs can have maturity dates of up to 15 or 20-years.
5. **Issuer:** It is important to know which bank or thrift issued your CD because FDIC coverage is limited to \$100,000 per depositor. If you have existing deposits at an institution and add a brokered CD, it may push your total deposited funds over the \$100,000 limit.
6. **Deposit Broker:** Typically CDs are sold in banks but brokerage firms, because they bring a large amount of deposits to a bank, can also offer CDs by negotiating a higher rate of interest. The brokerage firm can then divide the CD into smaller amounts and offer a fractional interest of the CD as a “brokered CD” to customers.
7. **Interest Rate:** Interest rates may be fixed or variable and are paid on a timetable--monthly, semiannually, or annually. Payments are made by check or an electronic transfer of funds. Variable interest rates can be tied to an index, such as the stock market, and could go down or disappear altogether. When comparing interest rates, make sure to look at the annual percentage yield (APY).
8. **Step-Up or –Down CDs:** CDs with a “step-up or –down” feature have a fixed interest rate for a period of time, usually one year. “Step-up” CDs have a higher rate in subsequent years while “step-down” CDs have a lower rate in subsequent years.
9. **Penalties for Early Withdrawal:** If you want to cash in your CD prior to the maturity date, you may have to pay a penalty to withdraw your CD and lose part of your principal. The brokerage firm that sold the CD sets the liquidation price. The firm has no obligation to buy the CD back at its face value so cashing the CD in prior to the maturity date can often result in a significant loss of the original investment.
10. **CRD:** The Central Registration Depository is a database containing employment and disciplinary information for stockbrokers and firms. Call your state securities regulator to request a CRD report and determine if the person selling you an investment is registered to do business in your state.



Before You Buy a Callable CD, Take Notes!

(If you don't know the salesperson, feel free to hang up!)

NASAA
10 G Street NE
Suite 710
Washington, DC
20002
(202) 737-0900

Date: _____ Time: _____

Call made Call received Meeting Location: _____

Name of Salesperson: _____ Phone: _____

Name of Firm: _____ Phone: _____

Broker's CRD No. _____ Obtained CRD Report*

Make copies of this form to have handy and use it to make notes of conversations with your salesperson or adviser. Be sure to record details of the recommendations you receive and the instructions you give. Keep the notes in your files.

1 Investment Recommendation

Buy Sell

Who is the issuer of the CD? _____

What is the maturity date of the CD? _____

Are there call features? How do they work? _____

How much of my money will I get back if I redeem the CD before maturity? _____

Reasons for recommendation _____

How does this meet my investment objectives? _____

What are the risks? _____

I asked to receive written information about the CD before making a decision.

Yes No

What is the interest rate you will be paid? _____

Can the interest rate change?

Yes No

How is interest paid?

Check Electronic Fund Transfer

Who holds the CD? _____

What is the broker's commission? _____

Amount of any custodian fees? _____

My Instructions

Do nothing Buy Sell

*** Call your securities regulator to obtain the CRD report, which discloses any disciplinary incidents on your salesperson.**

If you suspect wrongdoing, please contact your securities regulator. The phone number of your securities regulator can be obtained by checking the government listings in your telephone book, calling NASAA at 202-737-0900, or visiting www.nasaa.org on the Internet.

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

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