## EVERYTHING YOU NEED TO KNOW ABOUT

# CERTIFICATES OF DEPOSIT

NASB®

NORTH AMERICAN SAVINGS BANK

# YOUR GUIDE TO CERTIFICATES OF DEPOSIT

## CONTENTS

# WHAT IS A CERTIFICATE OF DEPOSIT?

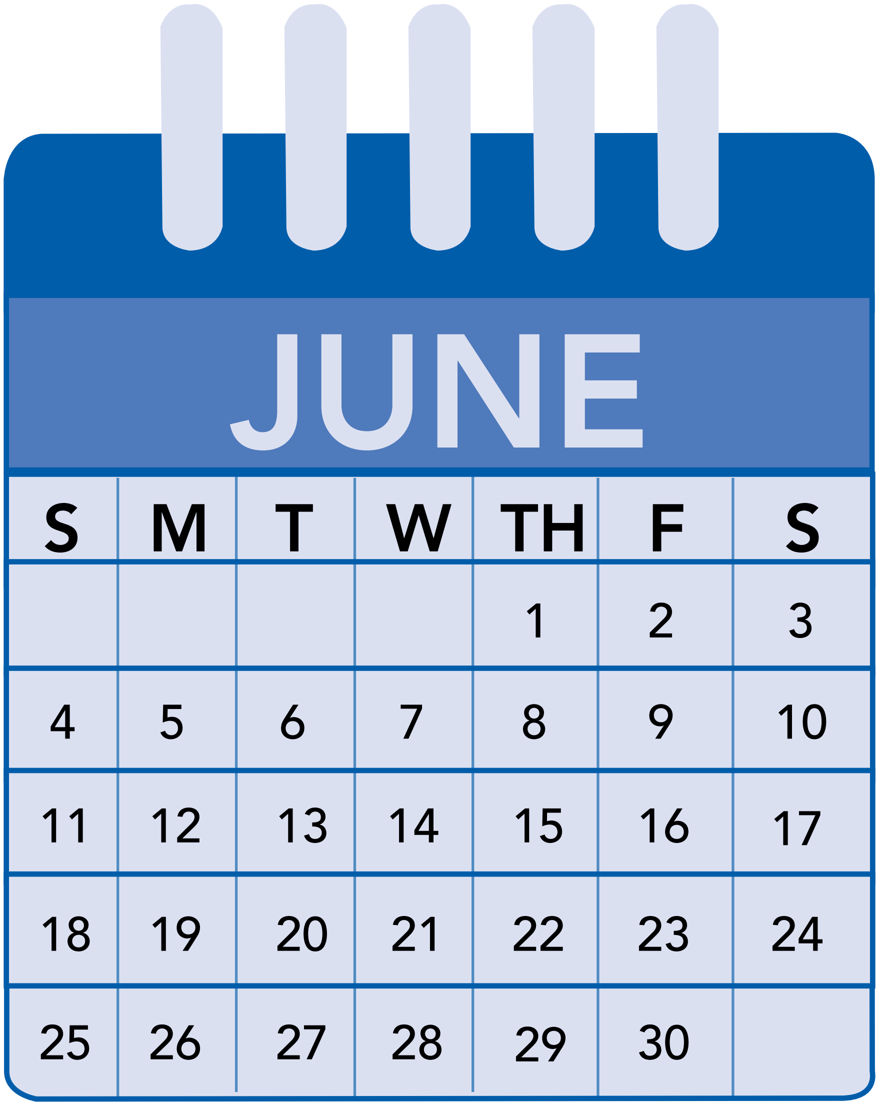
If you are investigating different opportunities to invest money, there are many asset classes you can choose. There are equities, like stocks or bonds, cash, and cash equivalents, money markets and certificates of deposit, or real estate and commodities. The differentiating factors are what is your risk tolerance and is it for short or long term.

A **certificate of deposit**, or what is more commonly known as a CD, is a type of savings account investment that pays a higher interest rate than a standard checking or savings account but requires a promise to your financial institution that you will not withdraw the principal from your account over a set amount of time, or term length.

If you have savings that you won't need to access for a certain period of time, a CD might be an ideal savings plan. Generally, the longer your term length, the higher the interest rate, and thus, the more money you will earn. Term periods for CDs at NASB can vary from three months up to 120 months. Most CDs have fixed rates based on where the Federal Reserve interest rate is currently set, and are FDIC insured.

# The interest rates of CDs are determined by two main factors:

- The length of time or term you choose for your CD to mature.
- The current interest rate environment or the rate banks are willing to pay in comparison to what the interest rate the Federal Reserve has set for all lending.



# BEST STRATEGIES FOR INVESTING WITH A CERTIFICATE OF DEPOSIT

You've decided that a CD is the right choice for your savings. You've set aside an amount that you will not need to access for a while, and you feel safe with the investment. Now, what's the best way to go about getting one? Here are some strategies you can implement to make sure the CD you purchase gets the best return.

## 1 Have a goal for when it matures.

How will you be using the CD? Are you saving for college? A new car? Why you are saving can be as important as how you will be saving. Create a goal that will not require an early withdrawal or purchase a CD that has a short-term if you know you'll need the money sooner.

# 2 Take advantage of high rate programs.

There are banks, like NASB, that offer "relationship pricing" or higher interest rates on CDs because they take into consideration the aggregated balances on checking and savings accounts of which the customer is the primary or secondary account holder.


# 3 An alternative to the stock market.

If you have a retirement fund that you will need in 10 years, but don't want to expose it to the risk of a declining stock market, you can put it in an insured CD, with a good rate. The longer the term, generally the higher the rate, and you'll know exactly how much money you'll have at the end of the term.

# 4 Weigh CD APY vs. savings account APY.

The balance factor is the term. If you can get a great annual percentage yield (APY) for your CD that's significantly better than your savings account interest rate over a term you are comfortable with, it may be in your best interest to get a CD. However, if the rate requires an extremely long CD term that you cannot commit to, you may want to wait until the CD rate rises.

# WHAT IS A CD LADDERING STRATEGY?

Locking into a long-term CD can pose some unforeseen problems. For instance, there is a chance the interest rates may increase during your CD term, which means you can't take advantage of that opportunity because you are locked into the lower rate. Or an emergency may arise that requires a large sum of cash, and you can't withdraw from the CD without incurring a penalty. These situations are where a CD laddering strategy may come in handy. CD laddering is a way for investors to get higher rates with CDs but keep accessibility to funds by setting up multiple CDs at staggered intervals. As each CD finishes at a set term, you can maintain a steady stream of cash while still earning higher rates than a regular savings account.

## CD laddering provides several benefits:

- **Accessibility:** Should you ever need it, your cash is available to you at frequent intervals.
- **Match to goals:** You can time the maturities of the CDs to match purchases like buying a car or tuition expenses.
- **Better interest rates:** You'll get the benefit of high rates associated with longer-term CDs but with minimized risk.
- **Flexibility:** You're not trapped if rates go up or down. You can adjust your investment to each "rung" based on the current interest rate.

## Here's one way you can set up a laddered strategy.

Let's say you have $20,000 you can put into a CD. Instead of putting all of it into one, high-yield four-year CD, you put $5,000 into four different CDs with different term lengths; a four-year, a three-year, a two-year and a one-year. After the first, one-year term CD expires, you can have the choice of either using the cash or re-investing into a new four-year term CD. You do this so that you have a CD term end every year, and eventually all will be at a high-yield four-year term.

This strategy requires diligent record keeping and reminders. You will want to set a reminder a couple of days before the CD is due, so you can decide whether to take the money out or put it into another CD.

Whatever strategy you select should be in line with your goals and current situation. If you think there's a higher likelihood you'll need cash; you may want to break out the terms into shorter periods (three, six, nine, 12 months). If needing cash will not be a concern, but don't want to miss out on raised rates, then stick to more of an annual term period.

# ADVANTAGES AND DISADVANTAGES OF A CERTIFICATE OF DEPOSIT

Purchasing a certificate of deposit creates great savings opportunities, but they aren't for everyone. To help you decide if a CD is right for you, here are some advantages and disadvantages to consider.

## ADVANTAGES

- **Better interest rates than regular savings accounts.**
  Since the financial institution you get the CD through knows that your money will not be withdrawn over a certain period, they can give you a higher interest rate than their normal savings accounts.
- **Security.**
  CDs are FDIC insured, making it a low-risk investment.
- **Easy to obtain.**
  You can walk into almost any bank or credit union and buy them over the counter. The minimum amount needed to invest, and the interest rates given will vary from institution to institution so you may want to do your homework.
- **Wide selection.**
  There are many types of CDs available with various terms and maturities to fit your specific needs.
- **Fixed return.**
  Financial planning is easier, knowing that your investment will grow at a specific pace over time, regardless of the changing economy.

# DISADVANTAGES

- **Limited liquidity.**
  Once your money is placed into the CD, it stays there for the entire term. Should an emergency arise where you need to withdraw money from a CD, a penalty will be applied. The result can mean sacrificed interest or loss of principal.

- **Low returns.**
  While CDs are low risk, they are also low yield, falling behind the returns on other investment products like stocks and bonds.

- **Inflation risk.**
  If your rate lags behind the rate of inflation over the term of your CD, you run the risk of your money losing its purchasing power over time as interest gains are overtaken by inflation.


Whichever type of CD you choose, you can be confident that your investment will be safe, and the return on your investment will generally have a guaranteed rate for the length of the term. The guiding principles for any investor in a CD need to be how much cash can they invest and how long can they go before needing the cash back. CDs offer a safer alternative to the stock market and a higher rate than a savings account, which makes them very appealing to many investors.

# Find out why so many investors choose NASB.

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