What Are Certificates Of Deposit?

A certificate of deposit (CD) is a savings account that holds a fixed amount of money for a fixed period of time [maturity date], such as six months, one year, or five years, and in exchange, the issuing bank pays interest. When you cash in or redeem your CD, you receive the money you originally invested plus any interest. Certificates of deposit are considered to be one of the safest savings options. A CD bought through a federally insured bank is insured up to $250,000. The $250,000 insurance covers all accounts in your name at the same bank, not each CD or account you have at the bank.

As with all investments, there are benefits and risks associated with CDs. The disclosure statement should outline the interest rate on the CD and say if the rate is fixed or variable. It also should state when the bank pays interest on the CD, for example, monthly or semi-annually, and whether the interest payment will be made by check or by an electronic transfer of funds. The maturity date should be clearly stated, as should any penalties for the “early withdrawal” of the money in the CD. The risk with CDs is the risk that inflation will grow faster than your money, and lower your real returns over time.

-Investor.gov / US Securities and Exchange Commission, “Certificates of Deposit (CDs)” excerpt.