Brokered CDs

Brokered deposits enhance a financial institution's liquidity and fill a need when deposit growth in the institution's market lags loan growth. Brokered CDs are considered a loan funding alternative.

Many financial institutions have determined that brokered CDs are a valuable deposit-gathering mechanism, as the amount of outstanding brokered CDs has increased significantly.

When opening a CD with a financial institution, the money is invested for a specified amount of time in return for the quoted interest rate. The financial institution pays the interest to the customer, usually when the CD matures. If access to cash is needed prior to maturity, there may be an early withdrawal penalty or a portion of the interest earned may have to be forfeited.

When purchasing a brokered CD, the predefined terms may be similar, but often they are longer-term deposits than CDs offered by financial institutions. They often pay interest at normal frequencies and their maturities may vary from 3 months to 20 years. While brokered CDs carry the same FDIC insurance benefits as certificates purchased directly from a financial institution, their structure more closely resembles that of a traditional bond than a CD opened directly at a bank.

Additional Items to Consider

Consider the following when dealing with brokered CDs:

- Maintain accounts in separate account types holding only brokered accounts.
- Hold the accounts in a separate branch.
- Review the penalty type – you may need to use a different value in the Penalty Field.
- Schedule RC-E may need to be set to a different value if the financial institution reports to the FDIC.
- The funds are usually invested for only one term. The accounts ordinarily are not renewed and are usually closed as they mature.