Bankrate

CD Early Withdrawal Penalties Bite into Principal at 89% of Financial Institutions

Details of the penalty policy make a big difference in what investor takes away

NEW YORK – December 7, 2015 – Nearly nine out of 10 (89%) financial institutions will seize some of the principal if a customer makes an early withdrawal from a certificate of deposit and the interest earned is not enough to pay the penalty, according to a new Bankrate.com (NYSE: RATE) report.

For 3-month and 6-month CDs, the most common early withdrawal penalty is three months' worth of interest. For 1-year and 2-year CDs, the most common penalty is to forfeit 6-months' worth of interest. These are unchanged from last year's survey. However on the 5-year CD, the most common penalty is now to forfeit one year's worth of interest. This is a change from last year, where it was a dead heat between a six month interest earnings penalty and a twelve month interest earnings penalty.

"The steepest penalties on many maturities are those that are assessed as a flat percentage of the principal. In these cases the penalty far outweighs the interest than can be earned, putting some portion of their principal at risk, which is what CD investors were trying to avoid in the first place," stated Bankrate.com chief financial analyst Greg McBride, CFA.

For example, on a 3-month or 6-month CD, a penalty of 2% of the principal dwarfs the maximum interest that could have been earned over the term. For 1-year and 2-year CDs, a penalty of 2.5% of the CD value or 4% of the amount withdrawn could more than chew up whatever interest the investor hoped to earn over the term. Only on a 5-year CD might the investor escape intact, with the steepest penalty of 30 months' interest still leaving the investor with a very minimal return, but only if the early withdrawal occurred during the back half of the 5-year term.

"The bottom line is that CD investors should be very certain they can live without the money for the term of the CD before investing," says McBride.

Other details from the survey:

- Whether the penalty is applied only to the amount withdrawn or to the full amount of the CD makes a big difference. The policies of the banks surveyed are nearly evenly split.
- Only in very rare instances are the penalties different for IRA CDs than for CDs held in a non-retirement account. More common is that the institution may not offer the CD in an IRA.

- The grace period on automatically renewable CDs is predominantly 7 days or 10 days. In no case was the grace period longer than 14 days.

The full CD early withdrawal penalty survey results are available here:

http://www.bankrate.com/finance/cd/cd-early-withdrawal-penalties-sock-1.aspx

Bankrate.com surveyed the top 10 banks and thrifts in the 10 largest U.S. markets, plus the five largest credit unions nationally (by deposits), from October 1-13, 2015. The survey measured early withdrawal penalty policies on 3-month, 6-month, 1-year, 2-year and 5-year CDs.

About Bankrate, Inc.

Bankrate is a leading publisher, aggregator, and distributor of personal finance content on the Internet. Bankrate provides consumers with proprietary, fully researched, comprehensive, independent and objective personal finance editorial content across multiple vertical categories including mortgages, deposits, insurance, credit cards, and other categories, such as retirement, automobile loans, and taxes. The Bankrate network includes Bankrate.com, CreditCards.com, InsuranceQuotes.com and Caring.com, our flagship websites, and other owned and operated personal finance websites, including Interest.com, Bankaholic.com, Mortgage-calc.com, CreditCardGuide.com, and CreditCards.ca. Bankrate aggregates rate information from over 4,800 institutions on more than 300 financial products. With coverage of over 600 local markets, Bankrate generates rate tables in all 50 U.S. states. Bankrate develops and provides web services to over 100 co-branded websites with online partners, including some of the most trusted and frequently visited personal finance sites on the Internet such as Yahoo!, CNBC, and Bloomberg. In addition, Bankrate licenses editorial content to over 500 newspapers on a daily basis including The Wall Street Journal, USA Today, The New York Times, The Los Angeles Times, and The Boston Globe.

###

For more information contact:
Kayleen Yates
Senior Director, Corporate Communications
kyates@bankrate.com
(917) 368-8677