DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

Phone: (360) 902-8718 ***FAX: (360) 704-6991***

November 3, 1999 No. B-99-16

Investments in Certificates of Deposit

The recent experience with the failed Keystone National Bank (Keystone) reminds us that certificates of deposit are not without risk. Keystone had significant amounts of brokered deposits. Brokerage firms create brokered deposits by splitting up large master certificates of deposits (CDs) into smaller dollar denominations. Brokerage firms then sell the smaller denomination CDs to credit unions and other customers.

At Keystone, several credit unions may well lose interest and/or principal in excess of the $100,000 FDIC insurance limit. At this point it is possible that a credit union in another state will lose $300,000 in principal that is above the limit. In addition, several credit unions stand to lose interest from the time of the failure of the bank to the date the principal is returned.

A further danger may result when neither the depository institution's records nor the deposit broker's records show that the customer (e.g., credit union) is the owner of the deposit. Those deposits may not be insured.

Credit unions who choose to purchase certificates of deposit in other financial institutions should weigh carefully and monitor the potential risk. In addition, management should consider structuring the investment to avoid loss of principal or interest to the degree possible. This would include ensuring that the credit union name appears on the certificate of deposit or the broker's records.