Learn more about Brokered CDs

Webinar Transcript

RICHARD CARTER: Afternoon, and good morning, to those of us in the audience, and welcome to our webinar today, Learn More about Brokered CDs. My name is Richard Carter, and I'm responsible for our fixed income offering on fidelity.com.

That is our brokered offering, including individuals, individual bonds and individual brokered CDs. And I'm delighted to be joined here today by my co-presenters, Pat Deignan and Max Ostrowski. Gentlemen, maybe you'd just like to say a few words of introduction to yourselves.

PAT DEIGNAN: Sure. Thank you, Richard. First of all, very pleased to be on the call today. As mentioned, my name is Pat Deignan, and I am a senior vice president with Fidelity Capital Markets, managing our taxable fixed income trading and syndicate businesses, which of course, includes our brokered CD offering.

MAX OSTROWSKI: And good afternoon, everybody. And echoing Richard and Pat's statements, thank you very much for being on the call today and for your interest in the product.

My name is Max Ostrowski, and alongside Eamonn Hunter and Jason Colangelo, we make up the three-person team who are responsible for new issues syndication within the capital markets group here in New York City. And the main function of our desk is to source as many broker deposits as possible for you the end buyers.

RICHARD CARTER: Great. Thank you, Max. Thank you, Pat. OK, so let's jump in.

Our agenda today, we'll cover a couple of areas of this business. We'll start off with some context, and then we'll move to the features of the brokered CD market and the bank CDs. We'll then look at how to buy a brokered CD, taking through fidelity.com and also a reference to our mobile app experience.

We'll end by looking at a couple of ways which you can use brokered CDs, both in a ladder format and using our Auto Roll service. And then we'll summarize and have some time for questions and answers.

So as we look at the context, I'd like to start by asking Pat and Max. It's been quite a few years here, we've seen historic rises in interest rates from the Fed.

We're now arguably at the end of that cycle and the beginning of a new cycle of cuts. Perhaps you could just paint that picture for us, both in terms of interest rates, and also how that applies to the brokered CD market in particular?

PAT DEIGNAN: Sure. So, happy to jump in here, Richard. So before we dive into CDs, we thought, as Richard had said, it would be helpful to just take a quick look at the interest rate market environment. Where we've been and where do we appear to be heading as we enter into the tail end of 2024 into 2025, and beyond.

So before we get too deep into it, let's first try to define what the Federal funds rate is before we dive deeper into the path of these rates. The Fed funds rate is the rate that banks pay for overnight borrowing in the Fed funds market.

And it's used around the world as a benchmark for other lending rates, such as household borrowing, mortgages, consumer credit, and small business loans, just to name a few.

Now, when rates drop, households are more inclined to spend, which boosts business profitability and promotes hiring, thus lowering the unemployment rate. This is a tool that the Federal Reserve uses to address its dual mandate of containing inflation while trying to maximize employment, and further, to the US economy as a whole.

Now, as we emerged out of the COVID pandemic in 2022, and the respective zero interest-rate policy out of the Fed, inflation pressures began to mount.

And in response to these inflationary pressures, the Fed embarked on a rate-tightening cycle, where we saw the Fed funds rate move from 0 to a range of 5 and 1/4 to 5 and 1/2 over an 18-month period until about the middle of 2023.

It's there where we remained until just this past month. Now, as most of you know, in response to moderating inflationary pressures and the appearance of a potentially weakening economy, the FOMC began to reverse course, this past month with a 50 basis point reduction in the Fed funds rate. Moving its range to a new range of 4 and 3/4 to 5%.

Now, for the remainder of the year, the market continues to price in an additional 50 to 75 basis points or so of easing, followed by an additional 100 basis points of easing being priced into the market for 2025.

This trajectory is going to bring the Fed funds rate down to low 3% range by the end of next year. You see the chart on the left here is the current dot plot, which is the financial projections from the FOMC. As you can see, the current projections point to

a terminal rate just below 3% into 2026, when the Fed expects to wrap up its easing campaign.

Now, while the dot plot is a helpful tool for investors and considering upcoming rate movements, it really is important to note that not even the Fed has a crystal ball as to what will happen down the road. I mean, these cuts may be more or less intense than projected, which really can have an effect on fixed income holdings in several different ways.

Now, looking at the chart here on the right, we see the shifting of various US Treasury curves over the past three months. Now, thematically, with the expectation of Fed fund rates moving lower over the next several months, the broader rates markets are moving to lower yields now.

Now, why are we showing these charts and laying out the path of Fed funds rates? First of all, when we talk about brokered CD yields, they tend to move really in lockstep, or near lockstep with Treasury yields. When US Treasury yields drop, brokered CD rates tend to drop. And vice versa, when rates go up, brokered CDs tend to rise somewhat in lockstep.

Now, this is due to the fact that US treasuries being the risk-free rate, and brokered CDs having a yield pickup to these benchmarks to attract buyers. Normally, but not always, brokered CD yields tend to have a spread or a yield differential to the benchmark US Treasury.

Now, when the markets began to price in the first rate cut in late June and Treasury yields began to decline in anticipation of upcoming Fed action, we saw US Treasury yields move 10% to 25% lower, and that's just over the last few months.

And the most downward movement, was is clearly in the one to five-year tenors due to their direct exposure to Fed policy. So again, thematically, we seem to be entering a period of lower yields and easing policy out of the FOMC.

OK, so sort of given that backdrop of the current interest rate environment, Max, maybe you are able to provide a little bit of background in some of the trends that you're seeing in facing off with some of the banks and in the banking sector?

MAX OSTROWSKI: Yeah. Thanks very much, Pat. Appreciate the macro overview there. And to Pat's point, I just want to dive a bit deeper into some specific industry trends that will be affecting brokered CD yields going forward over the next few years.

Want to speak briefly to industry consolidation. So M&A activity or mergers and acquisitions activity, or banks buying other banks, is expected to pick up over the next few years. This is because when borrowing rates drop, these transactions become cheaper for an acquiring bank, and thus we tend to see that activity pick up as we move forward.

So we don't expect this to be terribly drastic. There's still about 4,500 banks outstanding in the system right now. So certainly not going to lead to a meaningful drop in brokered CD availability on the website.

But the reason we want to touch upon this is, if you happen to own a brokered CD that is live with the bank being acquired, we just want you to know that the brokered CD that you own will continue to live on through the new entity.

So, for example, one of the bigger M&A acquisitions that's yet to be determined over the next six months or so is Capital One purchasing Discover Bank. I'm sure a lot of you read it in the news.

It's still pending regulatory approval, but if you happen to own Discover Bank CDs and Discover merges into Capital One, we just want to make it clear that if you own a Discover CD that will now fall under the Capital One umbrella, and the holdings that you have will still be fully insured up to $250,000.

One thing to consider, though, if you decide to buy Capital One paper going forward after the acquisition goes through, just please consider the aggregate amount of FDIC insurance at the institution.

We also wanted to point to the chart on the right regarding banks' use of brokered deposits. As we got into the end of last year, brokered deposits became a sticky deposit for banks, whereas they were not redeemable early, which was a huge value to banks as they were shoring up balance sheets coming out of the March and April volatility last year.

You could see the trend has ticked down slightly throughout the first two quarters of this year. Nothing terribly drastic, and we expect the use of brokered deposits to continue to be a strong piece of a bank's balance sheet. So this should lead back to more product available to you. And with banks competing for rates, should lead to higher rates available on the fidelity.com website.

So let's dig into a bit as to why banks use brokered CDs as a whole. So we're just going to tick off some of the key points here. The first being that a bank has a need to raise cash. Banks borrow cash to then lend cash at higher rates. This is the inherent simplicity of the bank model. So banks use brokered deposits to raise money.

As we spoke to briefly last slide, they're sticky deposits, meaning the issuer cannot redeem a non-callable brokered CD early. So if there's trouble or turmoil on the markets, banks cannot just say, we want to pull this funding, if the banks callable. The brokered CD will continue to live on it, and banks appreciate the stickiness of this deposit.

Through constant CD maturities, banks are constantly having to roll over their balance sheet to continue that funding. Brokered CDs and offering them through the Fidelity website, gives banks a broader reach into the environment.

So thanks to you all, we have an extremely loyal buying power within the Fidelity website and banks know that they need to step up and pay active competitive rates in the market in order to attract funding from you.

Banks can set the amount, terms, and rates on issuance, meaning they can pick specific needs that they have in the funding space. And banks can also issue callable CDs, which we'll get into a bit deeper shortly, where they can have a future hedge against rates dropping in the future. So they have the flexibility to call or redeem issuance if rates decide to drop.

So now that we've gotten through a bit of the background on the macro level and on the product itself, let's discuss how to evaluate CDs on the Fidelity app and website. So Richard, if you could jump in and we'll get you some background there.

RICHARD CARTER: Thank you, Max. That's great. Yes, absolutely. Let's now look at some of the features of brokered CDs as a potential investor might want to know.

Before we dive into the specifics, I'd just like to mention a couple of foundational pieces of paper we have here on our website. First off, an Education page that is very helpful, I think, for anyone beginning to think about an investment in a brokered CD, or anyone who wants to know some more detail.

Basically, it summarizes the key features of a brokered CD, along with some of the advantages and the risks to consider. It also shows a diagram there, which actually is a live feed of our best rates for various maturities.

And then over to the right, slightly more text-heavy, is our CD disclosure document. Again, investors might find this particularly interesting if you really want to know some of the details around the coverage and how the FDIC insurance works, for example.

This document is a fairly lengthy one, but it is very useful, and it does apply to all the CDs. It's not specific to any one particular offering. So with that as a backdrop, let's

now take a look at how the CDs appear on the site and some of the key features that you might want to think about as you make your investment decision.

So starting at the top, the screenshot there just shows a line in our Offering Table for one brokered CD. This is a Bank of California one just for an illustration. After the Buy button to the right, there is a description, Bank of California.

Further down the columns you go to the coupon, and how often that coupon will be paid. So in this case, the coupon is at maturity. Some CDs you'll see, semiannual pay or annual pay, but this one is a shorter-dated CD and it's paying at the maturity of the CD itself.

And then to the right, what is that maturity date? It's clearly outlined there, 7th of April, 2025. And the next column, is this a fractional CD? No. We'll come on to that in more detail in a few minutes, but basically, the standard size of one CD is $1,000 face value.

And so that means, basically, you invest $1,000 as a new-issue CD, and then at the maturity would receive a $1,000 paid back, in addition to the coupon earned over the time. Fractional CDs, a minimum of $100 increment and minimum.

So then moving to the right further, we have the yield. Notice that that's also 4.4, which is the same as the coupon. And that is a feature of the new-issue CDs where they issued at par, and therefore the coupon and the yield are the same.

Call Protected. Max mentioned that a little bit. We'll come on to that in more detail. But basically, call protected, yes, means that this CD does not have any call features and it's destined to run through its maturity date. So as we see here, if you were to invest in this CD, it would remain in your account until 7th of April, 2025.

Then we have the Settlement Date. We'll come on to this in a few minutes in more detail. It can be a little bit of a surprise to someone purchasing a CD. For example, if you were purchasing it today, to find out the settlement date is a few days into the future.

Sometimes it can be over a week into the future, too. So that's just something to bear in mind. What that means really is, is it's the time when your money will be deducted from your account and you'll start earning the money on the interest on the CD.

Quantity Available. You can see here there's a big number, $25,000. This is the direct connection we have with Max and team to give people an indication of how many CDs have been purchased and how many are left to purchase.

So in this case, when a new issue comes on board, usually there's several tens of thousands available. But you'll see over time that number whittling down as people purchase the CDs.

And then we have Various Attributes. These are described in a legend that is available on the web page. But certain things like FDIC, you'll see that all our CDs that we offer are FDIC insured. Sinking Fund-Protected, that's the SFB.

And Call Protected, CP. So we have various things in the legend there that vary CD by CD. And finally the period six months. So this is a six-month CD. You can also work that out from the maturity date-- from the current date.

But it's sort of approximation sometimes where at the end of the period or the beginning of the period, but we try and bucket them for convenience sake. People can sort the table by those months and years.

Now over to the lower right, we have a detailed page. There's even more information available. If you were to click on the description-- which is the, again, the second column here, the Bank of California name, which is in blue.

If you were to click on the description of a bank come to this Details page. And you can see here across the top, we have some of the key numbers to consider, and then further down, more information if you're interested to investigate the CD.

One item that might be of interest to people is the FDIC Certificate Number, that again, will tell you the unique number to each bank. So if you're conscious of--

I mean, cautious about perhaps over-buying, if you have, for example, the same name as the CD in your checking account or savings account, or if you have CDs elsewhere, this FDIC Certificate Number is very helpful to make clear whether it's the same risk or a different risk.

Over to the left, some of the summaries. We've covered a lot of these things. I think as we can get into later, you'll see all kinds of issuer on our website from national banks to international banks, and smaller community banks even.

All our CDs are FDIC-insured, as I mentioned, the same type of limits as you'd find in a regular bank CD. And the structures, we'll cover, but they're either full to maturity or they're callable, and some CDs may be step-up, which means that the coupon will step up over time, and that'll be clearly visible on the website.

I won't go into the rest for now. We'll cover the rest, I think, as we go through. So let's keep moving. And before we go into the purchase flow, let's just also take a look

for a second at the differences between brokered CDs and bank CDs. And I'll throw it back to you, Max, if I may, and take us through this slide.

MAX OSTROWSKI: Yeah. So after last year when we conducted this webinar, we received a lot of feedback with customer questions around the difference between a brokered deposit or a brokered CD, and a direct bank CD.

So in this slide here, we wanted to outline the key differences and similarities between the two products. The first one, and the first one shown up top, and arguably the most important is that both products are FDIC-insured up to $250,000.

So if you're buying a brokered CD on the Fidelity website and you're buying under the $250,000 limit, you're insured, and bank CDs carry this insurance as well. The main difference between the two, and the second point is via the way interest is paid out.

So brokered CDs pay out simple interest, meaning that the interest that you are receiving over the life of the CD is being deposited directly into your account at set coupon payments.

Bank CDs carry compounding interest characteristics, whereas the interest earned on a bank CD will be reinvested back into the principal and you'll earn interest on that growing principal amount up until the maturity of the CD.

The third point is the minimum investment. Brokerage CDs carry a $1,000 investment minimum, as Richard will get into shortly. And on the fractional CD program, there are certain CDs that can be traded in $100 increments, but for the most part, brokered CDs carry a $1,000 tradable increment.

Bank CDs, the minimum investments can range from $100 to $10,000, depending on how much the bank needs the CDs or what kind of program they're offering.

There are early redemption penalties that are carried with direct bank CDs from the issuer itself. So if you hold a direct bank CD with an issuer and you need access to your cash before the maturity date, the bank will normally charge you a fee on that withdrawal.

This fee normally ranges from anywhere from three months to six months of set interest that they will charge you to redeem the bank CD early. Brokered CDs do not carry this early redemption penalty from the issuer, so you are free to trade the brokered CD in the secondary space at any time that you want.

But please do know that where this trades will be dependent on prevailing market rates. So it's possible you can make money on the sell-out of the position, it's also possible you can lose money. So there is no direct fee, if you will. There is a small markup, but there's no direct fee from the bank itself as the deposit lives on at the bank.

But just know that when you do decide to sell-out of the position if you have to and you need that cash early, it will be dependent on prevailing market rates and liquidity characteristics in the secondary market.

The other points we want to touch upon, brokered CDs are purchased through a brokerage account. So you have everything organized and right in front of you in your Fidelity account.

Both products carry survivors options, meaning if the holder of the CD passes away, you are made whole. The CD is put back to the bank at par, and you receive interest up until that date. So both brokered CDs and direct bank CDs carry this characteristic.

Both products have the option of an Auto Roll where once a holding matures, you can roll that into a new CD structure at your direction. And finally, one point we want to highlight, and it's the last point on here, but arguably the most important is that banks are competing on rates and structures on a daily basis.

And we think this is an advantage to the brokered CD holdings in that banks are publishing their rates on Fidelity website. There's a myriad of options available to you. And banks realize that they need to step up and pay competitive rates because the market is so transparent, and there's such a large depth of offerings in the space.

So normally, brokered CDs will carry yield pick-up to direct bank CDs. Now, this might not always be the case, certainly not guaranteed, and we encourage you to research this. But for the most part, due to the fact that brokered CDs are so robust on the platform, banks know that they usually need to pay up for brokered CD rates in order to get the funding they need.

RICHARD CARTER: Thank you, Max. That was great. Yes, absolutely. We'll be coming back to many of these topics as we go through the presentation. And let's start that by going through the purchasing experience, how to buy a brokered CD.

And as Max was just saying, the advantage that we think of a brokered CD is that you could hold multiple in the same account, in your brokered account. It could be IRA as well. Anything that is eligible as a whole securities can hold brokered CDs.

And as the screenshot shows here, on this particular day when I took this, there was 147 different CDs available. 147 different issues available in our new-issue brokered CD marketplace. So as Max was saying, these are really designed to compete with each other, not just on rate though, but also on the structures and the maturity.

As Max was saying, the new issues are available in $1,000 minimum. We'll come to the fractional in a second. But if you do purchase one online, there's no added charge. It's really only if you sell it before maturity that we do charge. And as Max was saying, they're not going to be redeemed. So they're not redeemable in the bank sense, but it is possible to sell.

But what we would hope to convey here is that there is a lot of choice. That investors on the whole can take the maturity that they're interested in, look at that area, and then make the choice of which bank and which particular CD from there.

But you can see here on the screenshot over to the far right, the period starts at one month and we go all the way out, very active offerings, in say 0 to five years, and then sometimes you'll see CDs as long as 10 or 20 years. So there's hopefully, we feel ample choice so that people don't feel they need to sell before maturity. They can just let it mature.

As Max was saying, this dynamic hopefully will allow us to create a competitive marketplace where banks know that they need to offer good rates in order to get demand. And if you look at these two here-- just taking an example, these two banks next to each other on our display.

They're both classified as one-month CDs. Actually, they have almost the identical maturity date, just a day apart. And noticeably the yield is different, and they're both call protected. So there's a lot of similarity there between them, and the yield is different.

So people are free to choose and people might already have up to the limit of a certain bank, so they may be then looking at other banks as alternatives. But although these two are very close, sometimes you find, again, different coupon payment structures and the fact that one is called protected or one may not be.

These are other things to look out for. So, again, hopefully there's plenty of choice here. And these CDs are coming and they're being sold all the time in quite a dynamic fashion.

Well, before we go further down the purchase process, I did want to touch a little bit more on the fractional CDs. Fidelity was the first brokerage company to offer these to

the US retail public. And as we've been saying, the minimum increment in this case goes down from $1,000 to $100.

And if you look to the left, the screenshot there shows how they appear on the website. They'll be just a few of them. And they go from three months to two years maturity, so not across the whole curve. But we do aim to keep an active offering of them at all times.

And you'll identify them in the blue shading, the light gray, blue shading there on the Offering Table. And alternatively, we have created this guided search approach where you can search for CDs in a slightly different way, maybe more intuitive to some people.

Which is basically you can use the slider across the top here to have a quick glance at some of the best rates available from zero to two years. And if you're interested in one can go forward in the process, entering an amount that you're interested to invest in.

And then the tool will decide or we'll work through its logic and display, whether it's better to buy a regular CD or whether it's best to buy a fractional CD, or even a combination of the two. And as you can see it, it goes through all the math and actually shows how much money you could be earning over the time period were you to take either of the options offered.

So that's how you could think about fractional CDs. But essentially, they're the same in all respects. If you saw a fractional CD that was interesting to you, for example, and you wanted to buy $1,000, certainly that's possible too. There's no requirement just to buy it in $100 increments. So that's one option.

Another thing we wanted to highlight was our mobile app. And just over a year and a half ago, we started to offer our brokered CDs on the mobile app. And you can see here now looking very nice in both the light mode and dark mode. It's hopefully quite intuitive.

We show here the initial screen, which shows the best rates at various time buckets. And then from here, the process to purchase is quite simple. You would click one of these time buckets and then you'd be shown the full array of CDs available in that time maturity and be able to select one, and just continue down the purchasing process.

Also, as we say here, the mobile app does contain the fractional CDs and it also contains the Auto Roll capability, which we'll come on to again in the next few slides.

So let's now imagine you had purchased the CD. You had gone through the purchase experience and you then come to this screen. We wanted to just dwell for a second on the nature of the settlement date. I mentioned it earlier.

It sometimes can throw people because unlike, say, an equity trade, or a bond trade, or a secondary market CD trade, where you would find the settlement happening on a regular, dependable basis, in the case of a new-issue brokered CD, the settlement date can vary from your trade date.

And so we have created this little illustration. As you go through the order process some of you who have done that recently would have noticed this. But in case you haven't and you're interested, it just illustrates how the time between when you purchase the CD or place your order-- and you see here, you see the checkbox has been checked just to make that point.

And the end of the line, which is the settlement date, can vary. It can vary from a few days to even over a week. And so we've got here the different stages. One is the open order period, and actually, we say in the longest it can be up to 17 days.

And what is happening during that time is that your order has been logged, but also the issuer, the bank, is still accepting other orders. Could be from Fidelity, it could be from elsewhere. And these orders are collected, and then at the close of the period, or the end of the order period, then they're closed, and then you go to the trade.

Now, before that time, during this open order period, and you may have noticed on fidelity.com, you'll still be able to edit that order if you wished, and even cancel it as well. So there's that flexibility during that open order period.

But once the issuers are satisfied and we've sent the bank-- Max's team has sent the bank the final orders from Fidelity, and the bank has collected them from other institutions, then there'll be the trade date.

The open order period is closed. Then you can't edit the order any longer, and a day or two after that, comes the settlement date. So at that point, then cash is debited from your core account. So again, all the way through this process you haven't been deducted at all until that point.

Now, the key thing to note is that, at that settlement date is also the date when your CD will start to earn interest and accrue interest from that point. So that's when the clock starts, if you like. And that's usually a date that's aligned with the maturity date as well.

Now, we've mentioned the idea of-- Max was saying earlier that unlike a bank CD where these can be redeemed by the investor, or by the purchaser, maybe there's a fee. In our case, in the brokered CD world, there's a secondary market, and the secondary market can, of course, as the name implies, work both ways.

You could either sell your CD into the secondary market if you wished, and you can also buy secondary CDs. In fact, on a given day, we have over a 2,000 or so secondary CDs available for purchase on a different page of our website.

Some things to consider there versus the new issue, might be the things like the quantity. So if you look at this screenshot across the top, initially it looks very similar to what we were looking at earlier with the new-issue CD, but you can see here we have in gray the Bid and the Ask columns.

So you may have seen this already or being familiar with our bond offering, this is the type of thing that you'd expect in a bond, where the price on the Bid side the dealer is looking to buy is one price, whereas the prices from dealers on the Ask side or the offer side is a slightly higher price.

So you can see those two connected there with the line between them. That is the difference between, again, the price that you could expect if you wanted to sell versus if you wanted to buy. And then you have to look carefully underneath it, the quantity.

There's a quantity available in this case, on the Ask side, it's two, and the minimum is two as well. So this will be much more constrained, if you like, than the new-issue where you could place quite large orders so long as the order hasn't almost sold out.

Which is something that we have on the new issue case where, again, there's a finite amount available, but it's usually in the thousands. In this case, it varies from dealer to dealer. Now, if you wanted to buy more of this, too, I notice here we have a Depth of Book icon, and that means that the other dealers are also offering the same CDs.

So you could always take a look at that, maybe pay a higher price, but they'd probably be more available if you wanted to buy more than the two. As Max was alluding too there is the markup, the trading fee, and in our case for secondary CDs, it's $1, $1 per CD, whether you're buying or selling.

And as you can see here from the order ticket over to the lower right, this is laid out as you go through the purchase process. So, for example, whereas there's no charge in the new-issue CD here, the quantity was two, and the effective yield as a result was 3.688.

Now you can contrast that with the initial yield, 3.73, which is basically the price and the corresponding yield from the dealer. Then there's a $2 per-- sorry, a $1 per CD, total of $2 charge here, which leads the yield to 3.688. So a slight reduction, of course, in the yield from the markup.

Another thing to consider with the secondary market is the accrued interest, just like a bond. You can see here, the order ticket lays that out. So we have the cost of the CD, including the $2 for the trading fee, and the accrued interest came to a total of $2,023.

Don't forget, accrued interest, if you didn't know, is something that you're paying, as the buyer, for the days of interest that you will receive, if you like it back when the coupon is paid. So imagine you're buying a semiannual coupon. You buy the CD with one month already having gone, there's five months left.

You'll pay that first month upfront as accrued interest, but then you'll receive the coupon in full at the six-month stage. So that, again, is not an issue with the new-issue brokered CD because they're totally new issues and the clock starts on that settlement date we just looked at.

Now, I think one interesting topic for all investors, whether the new-issue or the secondary, is this nature of callability. And again, it might be something that's a little bit a novel concept to the CD buyer versus say, the bond purchaser who is very familiar with callable structures in the bond world.

So maybe, Max, and, Pat, maybe you could just begin a discussion on this. What are the pros and cons? What does it mean to have a CD that's call protected? Should I ignore it? Should I take care of assessing whether I want a callable CD or not a callable CD?

PAT DEIGNAN: Sure. Happy to just jump in here real quick. So one thing I'd just start with-- I'll start out by saying is that most of the CDs within our offering are not callable, meaning as Richard had alluded to, they would be call protected.

Now, the most glaring advantage from an investor's standpoint of a callable CD is typically going to be enhanced yield. Generally, an investor is going to be compensated by receiving a higher yield to allow the issuer this discretionary optionality. If future market rates have shifted, to allow the issuer a cheaper refinancing opportunities.

Now for bank issuers, particularly in a market where there is two-way interest rate risk, callable CDs can give banks much-needed flexibility to manage the liability side of their balance sheets.

It should also be noted, the spread or yield differential between callable and bullet issuance can vary depending where we are in the markets, and really depending on the overarching market conditions.

Increased volatility and two-way interest rate risk is likely going to lead to a widening of callable spreads or yield differential to the typical bullet issuance. So with that, Max, I don't know. When investors are considering purchasing a callable CD, what do you think are some of the considerations they should be taking into account?

MAX OSTROWSKI: So Pat laid out the initial spread benefits to buying callable paper, which is certainly apparent in today's markets, especially, but it's important to consider that if the CD is called have to be prepared for the reinvestment risk.

So if rates have dropped since the initial print, which is pretty apparent they're going to be over the next 18 months, you'll be left holding your principal and will have to put that money to work in the future at prevailing market rates.

So the rates in six months to a year as the Fed cuts, might not look as attractive. So something to consider on your end is, is this initial spread pick up of 5, 15, 25, up to 50 basis points, is it worth it for the optionality and is it worth it for the reinvestment risk that might be apparent down the road?

When buying a callable CD. It's also important to consider the lockout period and the call frequency. So each callable CD will carry with it a lockout period, meaning you are guaranteed to receive that coupon payment for a certain period of time.

So for instance, if you buy a two-year CD with a non-call three-month structure, you are guaranteed to receive that rate for three months. The issuer cannot redeem that CD before that three-month lockout period.

Beyond that, the call frequency starts to kick in where banks have the optionality to call it in certain increments, which could be either a monthly frequency, a quarterly frequency, or up to a semiannual frequency. The more frequent the optionality for the bank, i.e., a monthly pay, they have the option to call it once a month.

So consider this as well in deciding whether or not callable is right for you on the spread pickup. And also, are you comfortable beyond that, if a bank has a monthly pay that each month you may be at the mercy of the bank calling that CD versus a semiannual call frequency, where the bank only has the option to call it twice a year.

RICHARD CARTER: That's great, Max. So really, really interesting. I think we wanted just to show that on the screenshots here, just to your point, that the way to get to

this screen to the right, which shows that frequency, is by clicking the Call Protected, No Link.

You see the blue letters there? No. So it's not call protected. so it is callable. Once you do that, you'll see this pop-up with the Call Schedule, as it's known. And so as Max was saying, this one is actually callable monthly. So that presents a monthly risk to the investor that the bank could call it.

But as you said, both of you, there's some yield opportunity too. So it's always this trade off. And so people should obviously-- hopefully, will go in with their eyes open, and we offer we offer the choice. So this is great.

Why don't we just take a pause here and summarize where we've come and any final thoughts before we look at some of the other dimensions of our brokered CD offering. Max, do you want to take it away.

MAX OSTROWSKI: Absolutely. Thanks, Richard. So going forward, we just want everybody to be fully aware as to the questions and the considerations that should be apparent when buying a brokered CD.

So the most important question is the FDIC insurance. Just need to make sure that you're staying under that $250,000 limit. And if you have more to invest beyond the $250,000, to make sure you try to diversify the holdings so you're not exposed to-- or being overstretched on FDIC insurance.

The duration of the CD is very important to consider, obviously, regarding your cash needs in the future. So as the curve is steepening, and as long-end rates are becoming more attractive these days to short-end rates, it may make sense for you to extend out on the curve and to capture some attractive funding further out.

But just consider that this cash-- and your cash, will be locked up for that longer period of time. And if you do have a need for it early, you will have to trade out of it in the secondary market.

Regarding callable and non-callable prints, I think we've hit this on the head pretty well. Obviously, the meaningful spread at the onset of the print is attractive to buyers, but just make sure that you are aware that there's going to be reinvestment risk if the bank calls that CD. And you should probably be factoring in the likelihood that the bank will call that CD as rates drop.

So whether or not it makes sense for you to pick up that yield at the onset to fit into your portfolio is something to consider. As Richard alluded to, secondary markets are fairly liquid and there are offerings available every single day. There may be value in

that market, so we encourage you to move between the New-Issue and Secondary tab if you're comfortable with it.

But do consider the FDIC thresholds when buying in the secondary space. So, for instance, if you have $250,000 to put to work in the secondary space and a secondary CD is priced at 101, for example, you're going to need $252,500 to buy that CD.

So that premium beyond the 250,000, a.k.a. that $2,500, the premium is not insured. So just consider this when you're considering the amount to buy and how much cash you want to put to work in the secondary market if you decide to choose that route when purchasing a brokered CD.

RICHARD CARTER: OK, great. Thank you, Max. Well, that was excellent. And Pat, for your introduction to this topic, there's a lot of things to consider.

Before we begin to wrap it up and look at some questions, we did want to touch on two other capabilities that we have in the CD area. One is CD Ladders and the second is the Auto Roll facility.

Starting with the CD Ladders. The CD Ladders are really very similar to what people may have heard about or learned about, which is a bond ladder. We've taken the approach with the CD Ladders, though, to be very concrete, and we show it here on the website.

There are basically three models one-year, two-year, and a five-year. And if you look at each diagram, they are structured in a very kind of uniform way. So the one year ladder has four CDs each maturing in three month intervals. The two-year, similar structure, but maturing every six months for CDs. And the five-year ladder has five CDs maturing at annual intervals.

And the data we show here on the site is taken from the offerings that we've just been looking at and shows the highest yield available in a call protected CD for that particular time bucket. And so then, when you take the average of that you have the average of the Ladder's APY there.

So you can see that right now, as Pat was saying at the very beginning, the connection between the CD yield curve and the Treasury yield curve is strong. There's still that inversion. You can see that the very short-term CDs are paying higher rates than the longer-term maturities.

But the idea for this was to show people the types of yield that could be achieved through a ladder structure. And then by clicking the buttons underneath the

diagrams, Build a One-Year Ladder or Build the Two-Year Ladder, the investor is taken through this process, which is fairly simple.

With some checks in place, to Max's point about not over-buying the FDIC insurance-- but we go through this process, and you can then purchase all the CDs necessary to buy these ladder structures. So before we move on, let me just throw it out to you, maybe I'll ask you, Pat.

Maybe a little bit of the theory. Why a ladder in the first place? What's the merit of buying this versus just going up and buying one CD at a time?

MAX OSTROWSKI: No, it's a great question, Richard. And I'd say, just in general, I think laddering really can be a pretty compelling investment strategy really for a couple of reasons. It allows clients to manage both interest rate risk and cash flows.

Really, the strategy is designed to provide current income while minimizing exposure to interest rate fluctuations, which this environment has been pretty crazy. Instead of buying CDs that are scheduled to mature during the same time period, an investor can purchase CDs that might mature at staggered future dates.

Spreading out maturity dates can help prevent investors from trying to really time the market. Staying disciplined, and reinvesting the proceeds from maturing bonds, can help investors to ride out interest rate fluctuations in the marketplace.

RICHARD CARTER: Awesome. Great. Thank you. And let's just move on to the last educational points to mention here, is the Auto Roll capability. Again, it's very popular with our CD buyers. So many of you in the audience may have already have used this.

But for those who are not familiar with it, essentially what it tries to do, and hopefully does do, is allow the investor to select the option to have the proceeds of the principal automatically reinvested in another CD at the maturity date of the first CD.

And so really, think of it as a like-for-like. So if you have a three month CD and you want to reinvest it-- have it reinvest automatically after that three month period, you can by selecting Auto Roll. And this selection capability is available during the trade order flow, the purchase order flow.

It's only available on the new-issue CDs. And part of that reason is because, as I was saying at the beginning, the investment amount in a new-issue CD is at par, i.e., at a price of $100, and you will also receive that principal at maturity. So that same principle is then reinvested.

In the case of a standalone, it's a like-for-like. So if you have a six-month CD, you'll reinvest it, a six-month CD in the future. In the case of the ladder, as the illustration is here, the CD will be reinvested at the end of the ladder.

So in this case, if you select Auto Roll for your CD Ladder, in this example, the illustration shows how every three months when another CD matures, they will be buying a 12-month CD. And as the ladder rolls down, another 12-month CD will be purchased.

So essentially keeping the ladder in its original structure all the way through until you decide to exit the Auto Roll service. So that's a nice feature. As Max was saying at the beginning, a lot of banks offer this too. I'd like to suggest that in our case, the advantage of the Auto Roll capability is that it's agnostic as to which bank the money is being put to.

It's really looking for the best-yielding non-callable CD in that time bucket applicable at the time the roll happens. So that's another advantage from the wide choice that our capital markets colleagues are bringing and we're offering on the website.

So before we throw it open to the audience, maybe, Max, we could just step back one last time and summarize what our brokered CDs, things to think about for a potential investor.

MAX OSTROWSKI: Absolutely. So the yield curve is steepening, which we spoke about a bit earlier in the presentation. Meaning that the spread between short-term rates and long-term rates is increasing. So over the next six months to a year at least, and going forward, long-end brokered rates will start to look more attractive as this spread increases.

So it's important to ask yourself, are you comfortable extending out on duration because there should be some value further out in the curve for you to look at in two-year through five-year buckets. Certainly paying attention to upcoming economic releases is very important.

The Fed has emphasized that they're watching these economic releases on a weekly basis in order to assess the rate at which they begin to cut. So one economic piece or a couple aggregated together, can mean the difference between the Fed going 25, 50, et cetera, and what the long-end dot plot will look like.

So some of these economic releases that the Fed has referenced that they rely on is core PCE, CPI, jobless claims, and NonFarm payroll numbers, which is actually publishing tomorrow. So just encourage you to keep up with this.

Watch the markets, see how the markets are reacting, and then listen to Fed speak after the fact as to how they're assessing that data and what they believe that will do to the implied steepness of the cuts going forward on the dot plot curve.

PAT DEIGNAN: Yeah. And I'll add to that, Max. Despite the expected upcoming drop in rates, I think one of the things that we're going to continue to see is that competition for deposit gathering. It's not going anywhere. And banks are going to continue competing in the new-issue space to gather deposits as we move forward here.

This should create some additional product offerings and higher rates thanks to an uptick in competition. Next, I'll just emphasize, the Fed funds rate, it's projected to bottom out just below 3% or so, at least at this point in time, which means fixed income yields, thankfully, shouldn't drop back down to zero again. I don't think any of us want to see that.

Lastly, I would also mention, we're expecting some meaningful upgrades to the user experience on fidelity.com, which are in the works and should really improve how customers search for fixed income products, including brokered CDs, which we're very excited about going forward.

RICHARD CARTER: Thank you, Pat and Max. And on that note, let's just take a last look then as to how people can go forward. We show here a screenshot of how to find the CDs on fidelity.com. Basically, it's from the News and Research tab there in the center of the screen.

You click that, you scroll down, you'll see fixed income bonds and CDs. And there's our landing page. And from there, you can navigate to the CDs and Ladders tab, or see the CDs actually in the Yield Table at the very top of the table there.

So some quick things to mention. And I think throughout this presentation, we've tried to show some of the key facets of the CDs. I think, in the general bond investing, you're always looking at credit risk and term risk, and trading those off for yield.

The nice thing with CDs, of course-- and these brokered CDs are just like the bank CDs-- we've discussed they're FDIC-insured. So it really removes the credit risk as long as you're under the insurance limits of the FDIC. And then you're looking at this question of, how long a maturity do I want and then what yield can I find in return for that term commitment?

And we offer this range of maturities. So hopefully, that can suit everybody at any given time. Thanks to the efforts of Matt and Pat-- and Max, and Pat, and the team,

we have a reliable source of new-issue supply across the curve, across the banks, many different names at all times, so that allows flexibility too.

And finally, they're fairly easy to buy, no charge, and we have a fractional CDs for smaller amounts. And they're also available, as we've mentioned, 24/7, literally. You could go to our website over the weekend, during a holiday, take a look at what the offerings are, place the order, and once the business reopens in a few days, you'll see the settlement as we described.

So on that note, I want to thank you both very much, Pat and Max. It's been great. We do have some time for some questions, so I'll just flash the disclosures up here, and then why don't we move into our first question here?

This could be maybe back to you, Pat, from where we began in a way with some of the context. Our members are asking, what are the advantages and disadvantages of CDs versus treasuries?

MAX OSTROWSKI: Well, I think they're very similar instruments in that they both are backed by full faith and credit of the US government. And so some of the advantages I would say, as we talked about-- as we discussed earlier, I think, in general, and this is not a rule, but in general. I think the yield pickup, there typically is a yield pickup for CDs.

It's not always the case, but it's really it's a more of a function of what's the banks demand to raise deposits. But if they're in an aggressive deposit-raising mode, they generally speaking, will pay a higher yield than comparable treasuries. So that's really, I think, the biggest one.

I think with treasuries, obviously, you can buy in bigger blocks. And I think the advantages of CDs be, you can achieve FDIC coverage through diversification, which we have here. Obviously, Richard, you had mentioned before. You're typically speaking, this anywhere from 100 to 200 offerings and the new-issue space.

And further to that, sometimes 2,000 in the secondary market. So I think that's just enough. So I think they're very similar in that way. And I think at the end of the day, oftentimes it's something that they may be just looking to maximize the yield of the investment that they're looking to make. If that makes sense.

RICHARD CARTER: Thank you. Yeah, that's great. Thank you. How about this one. Max, I think, again, you touched on a lot of this, but maybe we go back to the question about the callable CDs. And the question are asking, why are CD rates for callable CDs higher? So we know that they typically are, but why is that?

MAX OSTROWSKI: Yes. So banks-- the issuers have to pay for that optionality. So they understand that you as the buyers are taking a risk or taking a chance by giving them the flexibility to redeem the paper early.

So at the onset, the bank has to entice buyers to buy a callable CD versus a non-callable CD, and they need to compensate buyers for that optionality, which is why they oftentimes yield at times tighter, 5 to 10 basis points, or sometimes as wide as 50 to 75 basis points, over a comparative non-call paper in the space.

So the bank has to compensate the buyer for that optionality because they know that the reinvestment risk is out there and they need to entice buyers to take a look at, or in the end, execute on buying a callable CD.

RICHARD CARTER: What does the--

PAT DEIGNAN: Another thing I was going to add as well, Max, and I think one of the things we've seen over the past year when there has been sort of an uptick in volatility as well, and the potential going back six months or a year ago, where there was both upside and downside risk. And that's why we probably saw some of those spreads widen out during that time period, if that makes sense.

RICHARD CARTER: All right. Thank you, both. Yeah. Another one here is about some of the offerings we show are from foreign banks. And the question is, should that be a concern in terms of safety, et cetera? What's your approach as you talk to the banks, Max and your team, what are you all thinking about the foreign banks?

MAX OSTROWSKI: Yeah, it's a great question and I appreciate the ask. So any bank that's brought on to the Fidelity platform you can know that the issuance is insured up to $250,000.

So a foreign bank name such as a State Bank of India, Bank of China, Safra/Mizrahi, Bank of India, et cetera, even though they are foreign names, they are domiciled or have branches in the United States. And they're required to do that if they want to operate under FDIC coverage.

So just know that if you see something on the Fidelity website, it is absolutely 100% FDIC-insured. Foreign issuers do tap the brokered CD space, but they do have to have a US-domiciled branch in order to issue and tap the brokered CD market.

So when comparing two investments and you're under $250,000, there's really no difference between the bank name. You're going to get up to $250,000 in insurance if something were to happen to either a domestic or a foreign bank who has

domestic branches within the United States, like at Bank of India or State Bank of India, for example.

RICHARD CARTER: But thanks, Max. Yeah, I was just thinking as you were talking there, so we have here the FDIC indicator. Now, obviously, this is not a foreign bank, but if it were, this would show. And then as we mentioned earlier, down in the Details page, we have the certificate number as well.

I think even the foreign banks, they would have that right. It's just like a domestic issuer.

MAX OSTROWSKI: And, Richard, if I may, sorry to add one more point. So we as an underwriting desk have very high standards for what's brought to the Fidelity platform. So there are some banks that don't make it up onto the Fidelity platform due to credit ratings concerns, et cetera.

So we watch ratings very closely and monitor very closely in tandem with our risk and credit team as well. So these foreign banks, in particular, that the question was revolved around, we're watching those ratings constantly. And if something were to drop or something our credit team doesn't like, we would take action on restricting that name up on the Fidelity platform.

So we have standards that are required for us to bring offerings to the Fidelity platform. We won't just bring any bank up. Thankfully, not many banks fall below it, but when they do, we are certainly restricting those names to the platform. So if you see them up there, they've gone through rigorous credit and risk background checks before they are brought to the Fidelity platform.

RICHARD CARTER: Thank you. Thank you, Max. OK, I think we have time for one or two more. Just as we're on this page customer asking here, what is blue sky? So we didn't really talk about that, did we? And now you can see here, we have this listed on the left here, Blue Sky States, depends on the CD and the state of the account holder.

So essentially, if you see the letters SKY in the attributes, that means there's a blue sky restriction on this particular CD. And if you you'll see it, it will be blue again. The text will be blue. You click it, there'll be a pop-up and it will list certain states, and those are the states that the CD cannot be purchased in.

And maybe, Max, you could just elaborate a bit, why is that? Why does this happen? And it's not on all CDs, is it? It's only on some. Anything to--

MAX OSTROWSKI: Yeah, I can jump in again here. So blue sky states are twofold. So one of which, a blue sky restriction is a mandated state law where certain states do not allow state-chartered issuers to raise deposits in that state.

It's pretty rare to see that. Certain banks have restrictions that are required by law in order to restrict it to show into certain states. Those are few and far between. But where they do also factor in is if a bank issuer proactively wants to restrict offerings in a certain state.

So a bank might do this because they're offering direct bank CDs that we talked about earlier in the presentation, and they don't want brokered CDs to be available within that state.

So if a bank is working on a direct deposit campaign where they're trying to get more direct core deposits into the bank, they may choose to restrict brokered CD offerings in that state so they're not co-mingling brokered with direct bank CDs.

So there's two reasons. One, state law, the other is a proactive nature of a bank trying to restrict deposit rates being shown that may trump ones that they're also showing, or it's just a choice that they don't want brokered CD rates being shown in states in which they do business.

RICHARD CARTER: Excellent. All right. Well, thank you, Max. Thank you very much for that, and the presentation. Also to you, Pat. It's been a pleasure. To our audience, thank you for attending, and we look forward to seeing you at our next fixed income webinar soon.

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Brokered CDs sold or redeemed prior to maturity may be subject to loss. Your ability to sell a CD on the secondary market is subject to market conditions. The secondary market for CDs may be limited. If your CD has a step rate, the interest rate of your CD may be higher or lower than prevailing market rates. The initial rate on a step rate CD is not the yield to maturity. If your CD has a call provision, which many step rate CDs do, please be aware the decision to call the CD is at the issuer's sole discretion. Also, if the issuer calls the CD, you may be confronted with a less favorable interest rate at which to reinvest your funds. Fidelity makes no judgment as to the credit worthiness of the issuing institution.

If you want to buy or sell a CD on the secondary market, Fidelity Brokerage Services LLC ("FBS") will charge you a markup or markdown. This markup/markdown will be

applied to your order, and you will be provided the opportunity to review it prior to submission for execution. CDs are made available through our affiliate National Financial Services LLC ("NFS") and from various third-party providers, including participants on the Tradeweb Markets, TMC Bonds, and Knight Capital Group platforms, with FBS normally acting as riskless principal or agent. These offering brokers, including NFS, may separately mark up or mark down the price of the security and may realize a trading profit or loss on the transaction.

For the purposes of FDIC insurance coverage limits, all depository assets of the account holder at the institution that issued the CD will generally be counted toward the aggregate limit (usually $250,000) for each applicable category of account. FDIC insurance does not cover market losses. In some cases, CDs may be purchased on the secondary market at a price that reflects a premium to their principal value. This premium is ineligible for FDIC insurance. For details on FDIC insurance limits, see www.fdic.gov

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