CERTIFICATES OF DEPOSIT

CDs or Certificates of Deposit are financial instruments.

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But what do CDs actually mean?

Who issues them??

Who subscribes to them???

Let me explain this to you with an example.

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- Amar wishes to borrow Rs. 30 Lakhs for his new business venture.
- He goes to his bank to ask for a loan.
- But though the bank agrees to provide a loan, it realizes that it has only Rs. 20 lacs at present.
- Now the bank does not wish to lose him to another bank.
- So the bank asks him to come back later to collect the loan amount.

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So how does the bank provide

the additional Rs.10 lakhs?

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- **The bank has corporate relationships from whom they can borrow.**
- **In order to borrow, they issue 'Certificates of Deposit' to these corporate relationships.**
- **Obviously the rate of interest offered by the bank to the corporate institutions would be higher than regular fixed deposits.**
- **Thus money comes into the bank and is in turn offered to Amar.**

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- CDs, thus, become the financial instrument issued by banks at a higher interest rate than Fixed Deposits to entice corporates to park money with them in order to meet a lending need.
- A CD bears:
  - a maturity date,
  - a specified interest rate, and
  - can be issued in any denomination.
- CDs are generally issued by commercial banks.
- The term of a CD usually ranges from one month to five years.

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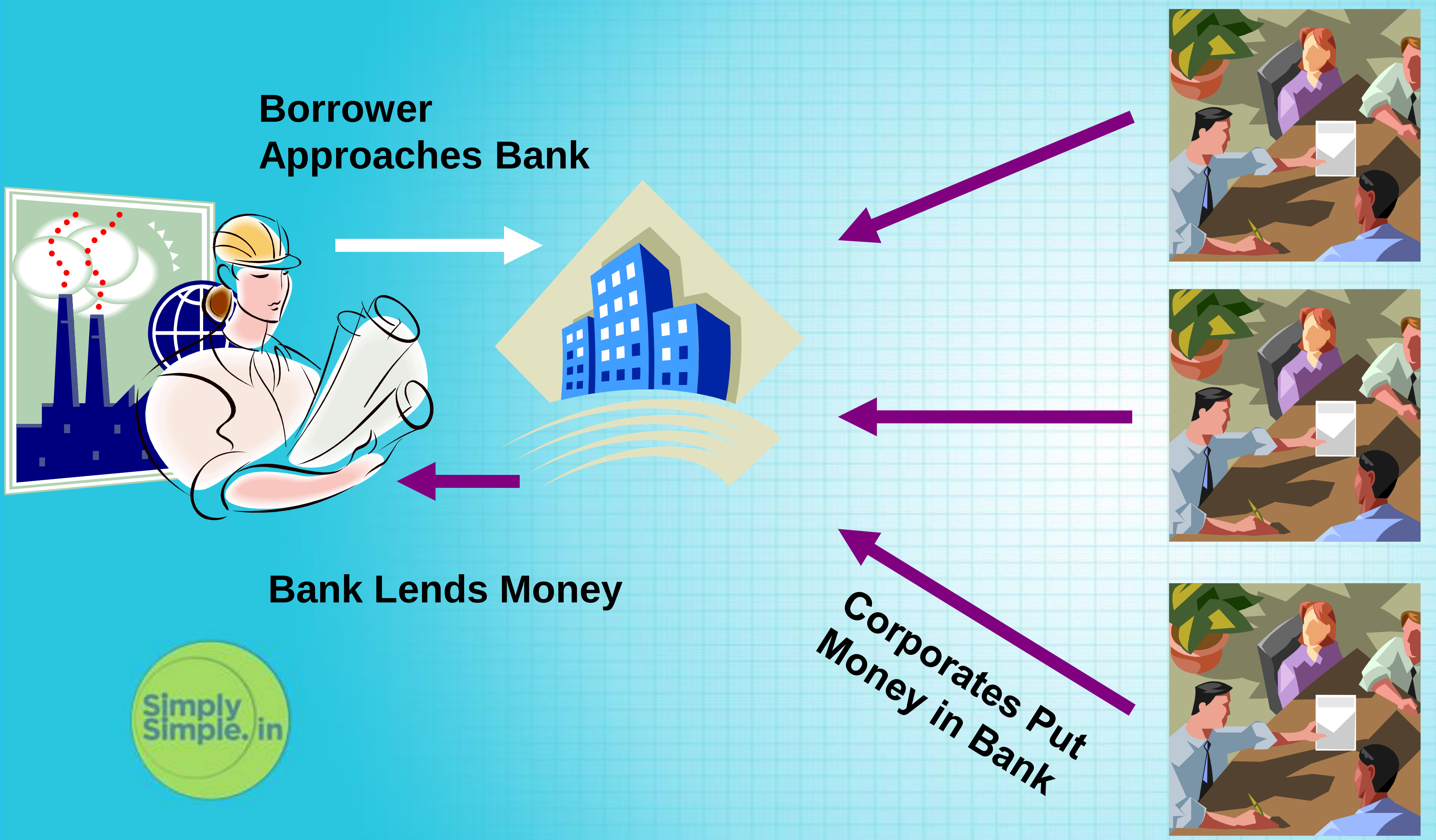
How CDs Work!



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To Sum Up

- **What: A Certificate of Deposit or CD is a time deposit or a financial product commonly offered to consumers by banks.**
- **Why: Sometimes, a bank may not have enough funds so it takes the help of CDs to provide a higher rate of interest to corporates.**
- **When: The term of a CD generally ranges from one month to five years.**

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What is the difference between a CD, a CP and a T-Bill ?

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- **CD: Money raised by the bank from the market to service an outstanding loan.**
- **CP: Money raised by a reputed corporate directly from the market by-passing the bank, for meeting working capital requirement (short term borrowing).**
- **T-Bill : Same as CP but issued by the government to meet working capital needs.**

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Hope you have now understood

the concept of

Certificate of Deposits

Thinking of Investment

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