

If a Callable CD is sold prior to maturity, the value of the CD will be subject to full market considerations, including, but not limited to, interest rate changes, which could result in a significant loss from the initial investment amount. This is true of all Brokered CDs. However, since Callable CDs tend to have longer maturities, their price sensitivity to interest rate changes is greater.

## Types of CDs

### Fixed-Rate CDs

This is the simplest, and thus most common, type of CD structure in the marketplace. Fixed-Rate CDs can be issued as either a Non-Callable (Bullet) or as a Callable. The CD's coupon, or interest rate, is set at issuance and remains the same until maturity or until the CD is called by the issuing bank. Interest payments are made on either a monthly, quarterly or semi-annual basis, or at maturity for issues of one year or less. Investors who require consistent income may find Fixed-Rate CDs appropriate.

### Step-Up CDs

The Step-Up CD is typically issued only in Callable form. It provides a variation on the simple Fixed-Rate CD by offering a predetermined schedule of coupon rates, which begin somewhat below that of current Fixed-Rate CDs and gradually increase over a specified time frame. The coupon may step-up only once or as often as annually until the issuer calls the CD or the CD matures. Step-Up CDs generally attract investors with expectations of gradually rising interest rates.

### Zero Coupon CDs

For investors who do not require current income, Zero Coupon CDs (ZCDs) may be worth investigating. ZCDs are available in Bullet or Callable form. With ZCDs, there are no coupon payments. Instead, the CDs are issued at a deep discount to their face value (par) and then gradually accumulate interest due until they reach par at maturity and are retired. With ZCDs, there is no need to reinvest periodic coupon payments - a plus for investors who are saving for future expenditures such as education or retirement. Note that interest earned on ZCDs is taxable each year, even though it is not received until maturity.

### Structured CDs

Structured CDs combine the long-term growth potential of an asset or basket of assets with the safety and security of knowing that your full principal investment will be returned if the investment is held to maturity – often referred to as “Principal Protection”. Instead of paying a fixed rate of interest, a Structured CD provides a return at maturity based on the performance of an underlying asset or basket of assets, such as a U.S. or international equity market index, one or more commodities, or virtually any other financial benchmark. Returns potentially exceeding those from other CDs are achievable through Structured CDs. While the interest the investor will receive is uncertain, and could be zero, the return of the initial investment amount at maturity is assured, up to the applicable FDIC insurance limit, regardless of the performance of the underlying asset(s). Investors in Structured CDs must evaluate the outlook for the underlying asset(s). Due to limited liquidity, Structured CDs are not suited for short-term trading.

### Inflation Linked CDs

Inflation poses a threat for fixed-income investors because it erodes the buying power of income received in the future, which, in turn, reduces a fixed-rate investment's real rate of return. Inflation-linked investments pay interest based upon changes in the Consumer Price Index (CPI) and therefore provide a consistent and predictable real return.

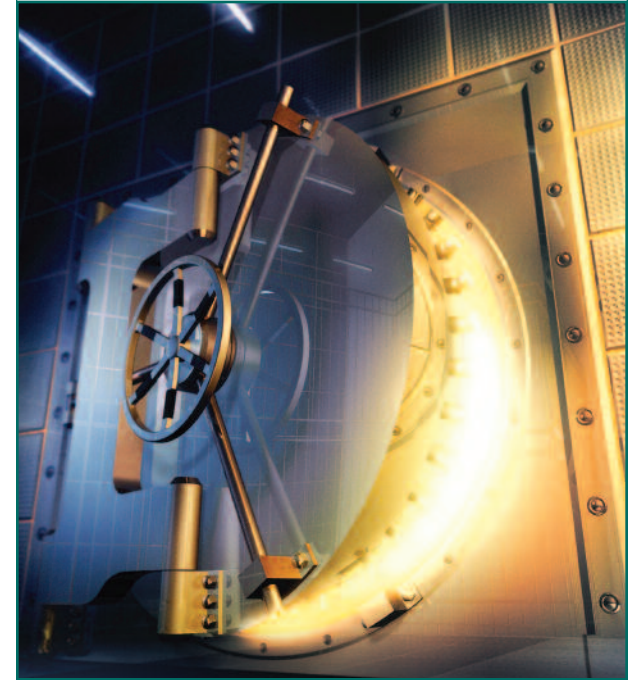
Inflation-Floater Certificates of Deposit (IFCDs) pay a monthly coupon that changes, or “floats”, based on the percent change in CPI over the previous year plus a fixed spread. The variable portion of each interest payment is meant to offset inflation, while the remainder is the real return. IFCDs may be an appropriate choice for investors saving for retirement, retirees using their portfolio income to cover living expenses or any investor seeking to diversify their portfolio through the addition of a unique asset class.

**Call your financial consultant:**

**Ask how Certificates of Deposit  
can be part of your investment future today!**



# A Guide to Understanding CERTIFICATES OF DEPOSIT



# CDs

## Certificates of Deposit (CDs) and Brokered CDs

### What are Certificates of Deposit?

Bank deposits have a special role in the economy as a significant source of funds for banks, savings and loans and thrifts. Banks lend money to businesses, homeowners, corporations and others for years at a time. In order to balance their assets versus liabilities, they must also attract funds that will remain on deposit for a fixed term.

Certificates of Deposit (CDs) are, quite simply, “time deposits” that earn a contractual rate of interest over a specified period of time. Investors agree to lend money to a bank for a fixed period of time and, in return, investors receive a stated rate of interest, paid in various installments, over the life of that “loan”. Because investors give up the right to withdraw their money at any time, they receive a higher interest rate than on demand accounts, such as savings or money market accounts.

### What are Brokered CDs?

Most investors are familiar with the type of CDs that can be purchased at a local bank branch. Many banks are highly motivated to gain depositors beyond local walk-in customers. As a result, numerous banks utilize the nationwide brokerage community for distribution of CDs. CDs obtained in this manner are referred to as Brokered CDs. Like CDs purchased at a bank, or any other bank deposit, Brokered CDs are backed by the full faith and credit of the U.S. Government through Federal Deposit Insurance Corporation (FDIC) insurance.<sup>1</sup>

Brokered CDs are simply Certificates of Deposit of banks sold through financial consultants. CD transactions can be easily executed within a brokerage account with just a phone call to a financial consultant. Investors do not receive physical certificates for their Brokered CDs, but instead receive a periodic account statement detailing their CD holdings.

*Brokered CDs may not be suitable for all investors. Please read the disclosure materials provided by your financial consultant carefully before investing.*

### Secondary market

CDs are most suitable for purchasing and holding to maturity. However, investors may find it necessary to dispose of CDs prior to maturity. An important distinction between Brokered CDs and Bank CDs is the different means for early redemption. Bank CDs typically carry an early withdrawal penalty, if redeemed early. Brokered CDs are traded in the secondary market, which provides

an opportunity for investors to sell their CDs at the prevailing market levels, which may be worth more or less than the original amount invested.

## Brokered CD Advantages

### Wider selection of issuers

Through Brokered CDs, investors have access to CDs from many institutions across the country. Investors can choose from a wide selection of maturities and coupon frequencies to find the appropriate CD best suited to their particular investment requirements, and also have the opportunity to thoroughly research for the highest yield in the market.

### FDIC coverage

The basic insurance amount is \$100,000 per depositor per insured bank.

If an investor or their family has deposits at one insured bank totaling more than \$100,000, they should know that different ownership categories of accounts are separately insured.

Investors may qualify for more than \$100,000 in coverage at one insured bank if they own deposit accounts in different ownership categories.

In addition, federal law provides up to \$250,000 in deposit insurance coverage for self-directed retirement accounts, such as Individual Retirement Accounts (IRAs).

Investors can obtain expanded FDIC coverage by purchasing CDs from multiple issuing institutions.<sup>1</sup>

### Rich structure variety

Brokered CDs are available in a variety of structures, such as Bullet, Callable, Fixed-Rate, Step-Up, Market Index Linked and Zero Coupon (“ZCD”). Interest payments may be made on either a monthly, quarterly or semi-annual basis or at maturity in the case of ZCDs and issues of one year or less.

### Estate feature

A valuable feature of most Brokered CDs is commonly referred to as the survivor’s option, which is designed to protect estate assets. This provision allows for the full withdrawal of the principal and interest in the event of the death or adjudication of incompetence of the beneficial owner, regardless of whether the current market value has fallen. It is important to note that very few fixed-income investments offer this attractive feature.

## Non-Callable and Callable CDs

### Non-Callable (Bullet) CDs

The most basic type of Brokered CD has a fixed (Bullet) maturity date. Maturities generally range from three (3) months to ten (10) years. Non-Callable CDs are available in Fixed-Rate or Zero Coupon structures.

### Callable Certificates of Deposit

Callable Certificates of Deposit are CDs that can be **called only by the issuing bank** prior to maturity. In order to achieve flexibility in managing their balance sheets, banks reward CD investors with a higher rate of interest on Callable CDs in return for the right to call, or pay back, the investors’ principal prior to the stated maturity date (at the bank’s discretion only). Callable CDs are offered in a wide range of maturities, typically three (3) to twenty (20) years. The non-call, or “lockout” period, (the time during which an issuer cannot call the CD) is usually one (1) to five (5) years. Callable CDs are available in Fixed-Rate, Step-Up and Zero Coupon structures.

### What causes a Callable CD to be called?

After the initial non-call period, the issuing bank has the right (but not the obligation) to call the CD for any reason prior to its stated maturity. As a practical matter, an issuer will generally decide to call a CD when it determines that market conditions are such that it can issue a new CD at a lower rate than the existing CD. Investors considering an investment in Callable CDs should note that it is unlikely that they would be able to replace their called CD with one that pays an equivalent interest rate under this scenario.

### What are the risks of Callable CDs?

Callable CDs are typically issued with longer maturities. Hence, investors should purchase a Callable CD only if they understand that the timing of the return of principal may be uncertain due to the call feature and may, in fact, be at the maturity date. Callable CDs may be paid off prior to the maturity as a result of a call by the issuer and, in certain cases, the total return may be less than the yield which the CD would have earned had it been held to maturity. As noted earlier, if the issuer calls the CD, investors may be unable to reinvest the funds at an equivalent rate to the original CD. If it is not called, investors should be prepared to hold the CD until maturity.

<sup>1</sup> For additional information about FDIC insurance and maximizing insured accounts, please refer to the website [www.FDIC.gov](http://www.FDIC.gov) and/or the FDIC brochure “Insuring Your Deposits”.