specified market index. For example, S&P 500®[2] MILCs pay interest based on the appreciation of the S&P 500® Index. Note that principal is always fully repaid at maturity, regardless of index performance. There are many possibilities for indexes, such as the Nikkei 225®[3], NASDAQ 100®[4], etc. Returns potentially exceeding those from other CDs are achievable through MILCs; of course, because of the numerous factors which affect market indexes, no assurance can be given that holders of MILCs will receive any interest. Investors in MILCs must evaluate the outlook for the underlying index. Due to limited liquidity, MILCs are not suited for short-term trading.

Estate Feature

Life is uncertain, and CDs are designed for security. A common feature available on CDs, frequently referred to as a “death put”, provides for optional redemption in the unfortunate event of death or legal incompetence. In this circumstance, the estate may redeem the CD at par (or in the case of a Zero Coupon, at accreted value based on original issue yield).

Early Redemption

In certain instances, bank CDs can be redeemed prior to maturity at the expense of an early withdrawal penalty, normally 3-6 months of interest (sometimes more). The early withdrawal penalty does not apply to Brokered CDs. Rather, they may be sold prior to maturity in an active secondary market; the price received depends on market conditions-primarily the prevailing level of rates. As a result, investors may receive funds above or below the original purchase price if not held to maturity.

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Spread the Wisdom

There you have it! The range of CDs satisfies different investor preferences, and now you can make the perfect selection for your special circumstance. Remember that only CDs held to maturity (or call) are entitled to the full return of the deposit amount—CDs sold in the secondary market prior to maturity may be worth more or less than their original cost. Hopefully, armed with this insight, you will feel comfortable enough to explore the spectrum of possibilities now available through Certificates of Deposit.

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1 Although many benefits of Certificates of Deposit are highlighted throughout this brochure, CDs may not be suitable for all investors.

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3 “Nikkei”, the “Nikkei Stock Average”, the “Nikkei Average” and the “Nikkei 225” are trademarks and have been licensed for use by ABN AMRO North America, Inc. and its affiliates (including the Bank). The Nikkei 225 Index is the exclusive property of Nihon Keizai Shimbun, Inc. (the “Licensor”). All rights, including copyrights and rights to use the “Nikkei”, the “Nikkei Stock Average”, the “Nikkei Average” and the Nikkei 225” designation are reserved by the Licensor. The Licensor reserves the right to cease the compilation of the Index and to change its composition and contents.

4 The Nasdaq 100®, Nasdaq 100 Index®, and Nasdaq® are trade or service marks of the The Nasdaq Stock Market, Inc. (which with its affiliates are the "Nasdaq Corporations") and are licensed for use by the Bank. The MILCs have not been passed on by the Nasdaq Corporations as to their legality or suitability. The MILCs are not issued, endorsed, sold, or promoted by the Nasdaq Corporations. ***THE NASDAQ CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE MILCs.***

Which CD is right for you?

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Investors commonly allocate a portion of their "safe" money to Certificates of Deposit (CDs), which are covered by the Federal Deposit Insurance Corporation (FDIC). However, it can be confusing at first to determine which type of CD is best suited to your particular requirements[1]. Due to the variety of needs among fixed income investors, CD structures have been designed to address all common scenarios. After reviewing the following information, you will be able to choose the right CD for your situation, whether it be Callable or non-Callable, Zero Coupon, Fixed-Rate, Step-Up or a Market Index Linked CD (MILC).

To call, or not to call

The first decision that must be considered is whether to choose a "Callable" CD or non-Callable CD. In the case of a Callable CD, the issuer has the right to "call" (pay off) the issue early. Obviously, CDs which are not callable are the simplest, since they allow the holder to know precisely how long the CD will be held and how much interest will be received. If an investor requires this absolute certainty of maturity, even at the sacrifice of higher rates of interest available from Callable CDs, then a non-Callable CD (often called a "bullet") is the answer.

Non-Callables (Bullets)

Within the realm of non-callable CDs, there is still a choice to be made between Zero and Fixed-Rate coupons. The term "coupon" refers to an interest payment. Many investors require consistent cash flow, possibly to fund expenditures of some nature. As a result, they demand the regular coupon payments offered by Fixed-Rate CDs. These CDs are issued at a price of "par", which is the principal amount to be received at maturity. Interest coupons are paid either monthly or semi-annually over the life of the CD, each based on the same fixed level set at issuance (in accordance with prevailing interest rates). The particular pattern of cash flow required by the investor will determine preference between monthly or semi-annual interest payments. Note that semi-annual pay CDs generally offer a higher interest rate than monthly pay CDs.

Non-Callable Zeros

A Zero Coupon CD ("ZCD") is unique in that it does not involve any periodic interest payments. Rather, it is issued at a deep discount to par, then gradually accretes at the yield-to-maturity rate to reach par at maturity. Many investors favor this alternative due to the implicit compounding of interest, eliminating the responsibility of coupon reinvestment. Others are lured by the lower price of ZCDs, which allows for the purchase of more face value with available capital (note that the FDIC $100,000 per issuer limit applies to accreted value). Of course, all CDs are taxable each year on interest earned, unless held in a tax-deferred account, regardless of whether the interest is paid or simply accreted.

The Call for Higher Yield

Let's examine the exciting world of Callable CDs! In order to achieve flexibility for managing liabilities, banks reward CD investors with a significantly higher rate of interest on Callable CDs in return for the option to pay them off early (at the bank's discretion only, after an initial period of typically one or two years). Investors who want to receive as much interest income as possible are attracted to Callable CDs. When CDs are "called", principal is returned to investors and interest is paid up to the call date. The wide variety of Callable CDs enhances their popularity, with offerings of monthly or semiannual interest payments, maturities ranging five to twenty years, and a Step-Up structure in addition to the Fixed-Rate and Zero Coupon versions.

Keeping in Step

The Step-Up Callable CD features predetermined coupon sequences. These coupon variations start below the current fixed-rate coupon and over time increase above it (Step-Up). Of course, they may be called by the issuer (only) after the non-call period of one to two years. The Step-Up appeals to investors who want income to grow (possibly as an inflationary hedge), or are pursuing a higher total rate of return under the assumption of rising interest rates.

When a Zero is the highest number

It's worth mentioning that the Zero Coupon Callable CD claims the distinction of the CD structure with the highest yield. These CDs are offered in longer maturities, typically fifteen to twenty years, which results in a significantly discounted price. The low price facilitates better matching of CD purchases to available investment funds. Investors without the need of regular cash flow are commonly attracted to Zero Coupon Callable CDs.

Opportunity when CDs and Equities Meet

Finally, for capital which can be targeted toward the potential of much higher return on investment, FDIC insured Market Index Linked CDs (MILCs) should be considered. MILCs provide investors with the opportunity to participate in equity markets while protecting their original investment. These CDs typically earn no interest prior to maturity, at which time interest is paid based on the performance of a