

# CD Model

## Frequently Asked Questions

### What is a structured CD?

A structured CD is a fixed-term investment which offers market-linked interest with the benefit of full capital protection. Products are often linked to indices such as the S&P 500 or a basket of indices and offer returns based on their performance. The capital protection feature seeks to preserve investors' original investment in the event of the market falling. Individual CDs have terms that vary month to month.

### How does the principal protection work?

When held to maturity, structured CDs provide investors with 100% principal protection, plus an additional amount tied to the return of an underlying asset. This principal protection is insured by the Federal Deposit Insurance Corporation (FDIC) and subject to FDIC rules.

### How do structured CDs work?

Structured CDs are created by combining a principal component and a performance component. The principal component is normally backed by a U.S. government zero coupon bond. This guarantees the investor will receive at least 100% principal protection upon maturity of the CD. The performance component determines any additional investment returns the investor receives at maturity. This component is tied to the performance of a basket of stocks, an index, an asset class or another market measure.

### Who are structured products for?

Structured products can be used by all types of investor. Typically, however, they appeal to investors looking for safety and market exposure, which can help meet their long-term financial goals. With structured CDs, investors can take a more selective, buy-and-hold approach which can minimize downside risk and lessen portfolio volatility.

### How long do I have to invest my capital?

Products typically have investment terms of two to seven years. At the end of the term, the CDs "mature" and, according to the performance of the index (or asset), pay back investors' original capital plus the market-linked return.

### Can I withdraw my money during the investment period?

Yes. However, by selling your CD before the end of the term,

investors may receive less than they originally invested, and the capital protection feature will not apply.

### What are my liquidity options?

There is typically a daily secondary market for each of the CDs. The CDs can be sold individually. The value in the secondary is determined by a variety of factors including underlying asset performance, interest rate movements and duration left. The value may be more or less than par value and may expose the investor to principal loss if sold prior to maturity. Principal protection is only guaranteed upon maturity. The client should not invest their money in this strategy if they do not have the intent or ability to keep the investment in the CDs until maturity.

### How often are products available?

Structured CDs are open for investment on a monthly basis. Banks normally offer a new CD for investment in the early part of each month and they stay open for several weeks at a time. This cycle repeats each month. Each month's CDs are custom designed and have terms that vary.

### How can I see how my investment is progressing?

All CDs are conveniently purchased in a TD Ameritrade advisory account. TD Ameritrade sends you a monthly statement that shows the full value of your account.

### What's the downside?

Investors forgo dividends and interest, and may also give up a portion of any capital appreciation in exchange for principal protection and the market-linked interest that is based on the specific terms of each CD.

### When is my interest paid?

The interest payment is paid on the maturity date of each CD and is equal to the greater of (i) the market-linked, indexed interest amount (subject to the terms, caps and participation rates) or (ii) the guaranteed minimum interest, never to be less than zero.

### Why do they have a range of returns?

Many CDs will have a range of returns since they are open for marketing over a period of weeks. This gives the issuer flexibility

*(Continued on back)*

if the market moves in one direction or another. For example, during the period of time the CD is open for investment the Participation Rate may be stated as 80% to 100% of the upside of an index. The final pricing will be determined when the product closes for investment and the actual trades are made. We always recommend that you assume the low end of the range, although typically the number comes in somewhere around the midpoint.

### How will my taxes be affected?

Investors should consult their own tax professional concerning the taxable treatment of these CDs. The CDs will be treated as "contingent payment debt instruments" for U.S. federal income tax purposes and will therefore be subject to special tax rules. Under these rules, the client will generally be required to recognize interest income in each year at the "comparable yield," as determined the Bank, called Original Issue Discount (OID). The OID is based on the comparable yield of a fixed-rate instrument with similar maturity. Each issuer will disclose their estimation of OID interest the holder should incur. The investor will receive a 1099 each year for CDs purchased in a non-qualified account.

When the investor sells, exchanges, or otherwise disposes of a CD (including holding the CD until maturity) (a "disposition"), the investor generally will recognize gain or loss on such disposition equal to the difference between the amount received by the investor for the CD and the investor's tax basis in the CD. The tax basis in a CD generally will be equal to the original purchase price for such CD, plus any Tax OID accrued by the investor. Any gain realized by the investor on a disposition of the CD generally will be treated as ordinary interest income. Any loss realized by the investor generally will be treated as an ordinary loss to the extent of the Investor's Tax OID inclusions with respect to the CD up to the date of disposition. Any loss realized in excess of such amount generally will be treated as a capital loss.

### How is the RMD in my IRA handled?

Because the CDs we purchase to do not have a liquidity provision or event before they mature (unless sold on the secondary market), they are NOT RMD-friendly. To plan for RMD, there are several options:

1. Ensure that you have another IRA with enough liquidity that will allow such other IRA to satisfy the client's entire RMD.

2. Leave enough cash in the TD Ameritrade IRA we use to buy the CDs so that we do not need to liquidate any of the CDs early to satisfy the RMD. This may involve leaving several years worth of RMDs in cash since the 1st CD may not mature for several years.

### What are the FDIC insurance limits?

Each of the CDs carries the same FDIC insurance as traditional fixed rate CDs. The insurance coverage applies only to the principal. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted on July 21, 2010, the maximum deposit insurance amount was permanently raised from \$100,000 to \$250,000 for all deposits held by the client per account (with the same title or owner) at each Bank. (See chart below)

For example:

If you purchased two CDs in an IRA account issued by two different banks, each CD would enjoy the full \$250,000 FDIC insurance, even though they are held in one TD Ameritrade account.

### Maximizing Coverage

	SINGLE ACCOUNTS	JOINT ACCOUNTS	REVOCABLE TRUST ACCOUNTS	CERTAIN RETIREMENT ACCOUNTS	TOTAL COVERAGE
HUSBAND (Individually)	\$250,000			\$250,000	\$500,000
WIFE (Individually)	\$250,000			\$250,000	\$500,000
TOGETHER		\$500,000	\$1,500,000		\$2,000,000
TOTAL	\$500,000	\$500,000	\$1,500,000	\$500,000	\$3,000,000

Note: Revocable Living Trusts get \$250,000 FDIC coverage for each beneficiary of the trust. This example assumes 6 beneficiaries and therefore 6 x \$250,000 or 1.5 million FDIC coverage.

### IMPORTANT DISCLOSURES AND RISK CONSIDERATIONS

Structured CDs may not be suitable for all investors and are sold only by prospectus. Investors should carefully read the prospectus and pricing supplement prior to investing which contains a detailed explanation of the risks, tax treatment, and other relevant information about the investment. Additionally, investors should consult their accounting, legal or tax advisors before investing.

This communication is prepared solely for informational purposes and should not be considered an offer to sell or solicitation to buy any security. Investors should consult their accounting, legal or tax advisors before investing. Additionally, structured CDs should be considered buy and hold investments and may result in a loss if sold prior to maturity. An active trading market may not develop. Many factors may affect investment value such as interest rates, volatility of the underlying asset, trading market and time remaining until maturity. All opinions and estimates are given as of the date hereof and are subject to changes. The value of any investment may fluctuate as a result of market changes.