

Certificates of deposit (CDs) and brokered CDs

Stable investments that earn higher interest than money markets

FDIC insurance limits

The standard insurance amount is \$250,000 per depositor, per insured depository institution for each account ownership category. These limits apply to all deposits with a particular issuer even if purchased through multiple institutions. You can learn more about FDIC insurance coverage at the FDIC website at www.fdic.gov or by calling 1-877-ASK-FDIC (1-877-275-3342) Monday through Friday from 8:00 a.m. to 8:00 p.m., Eastern Time. For the hearing-impaired, the number is 1-800-925-4618.

In order for banks to balance their assets and liabilities, they lend money to businesses, homeowners, corporations and others for years at a time.

Certificates of deposit are important sources of funds that remain on deposit for a fixed amount of time.

Certificates of deposit (CDs) represent 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, 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.

Brokered CDs¹

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, many banks use the nationwide brokerage community for distribution of CDs. CDs obtained in this manner are called “Brokered CDs”. Like CDs¹ 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.

Brokered CDs are simply CDs that are issued by banks, purchased in bulk by securities firms and sold to clients through financial advisors. CD transactions can be executed within a brokerage account by calling a financial advisor. Investors receive a periodic account statement detailing their brokered CD holdings instead of physical certificates.

Secondary market

CDs are most suitable for purchasing and holding to maturity. However, investors may find it necessary to dispose of CDs before 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. Brokered CDs are traded in the secondary market, which provides an opportunity for investors to sell their CDs at prevailing market levels. They may be worth more or less than the original amount invested.

¹Brokered CDs may not be suitable for all investors. Please read the disclosure materials provided by your Wells Fargo Advisors Financial Advisor carefully before investing.

Advantages of brokered CDs

- **Wider selection of issuers.** Brokered CDs are available from many institutions across the country. Investors can choose from a wide selection of maturities and coupon frequencies to find a CD suited to their particular investment requirements.
- **FDIC coverage.**² The current limit on FDIC insurance coverage is \$250,000 (including principal and interest) for all deposits held in the same ownership category per depositor, per institution. In addition, federal law provides insurance coverage of up to \$250,000 for certain retirement accounts. Investors may be able to obtain expanded FDIC coverage by purchasing CDs from multiple issuing institutions.
- **Structure variety.** Brokered CDs are available in a variety of structures, such as noncallable (“bullet”), callable, fixed-rate, step-up, market index-linked and zero-coupon. Interest payments may be made on either a monthly, quarterly or semiannual basis, or at maturity in the case of zero-coupon CDs and issues of one year or less.
- **Estate feature.**³ Most brokered CDs have a “survivor’s option”, which is designed to protect estate assets. This provision may allow 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.

Noncallable and callable CDs

- **Noncallable (“bullet”) CDs.** The most basic type of brokered CD has a fixed (bullet) maturity date. Maturities generally range from three months to 10 years. Noncallable CDs are available in fixed-rate or zero-coupon structures.
- **Callable CDs.** Callable CDs can be called by the issuing bank before 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 before the stated maturity date (at the bank’s discretion only). Callable CDs are offered in a wide range of maturities – typically three to 20 years. The noncallable or “lockout” period (the time during which an issuer cannot call the CD) is usually one to five years. Callable CDs are generally available in fixed-rate, step-up and zero-coupon structures.

What causes a callable CD to be called?

After the initial noncallable period, the issuing bank has the right (but not the obligation) to call the CD for any reason before its stated maturity. As a practical matter, an issuer will generally decide to call a CD when 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.

²For additional information about FDIC insurance and maximizing insured accounts, please refer to the Web site www.FDIC.gov and/or the FDIC brochure “Questions and Answers About Your Insured Deposit.”

³Subject to the terms of the issuing institution.

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 before maturity as a result of a call by the issuer and, in certain cases, the total return may be less than the yield that 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 the rate of the original CD. Investors should be prepared to hold the CD until maturity in case it is not called.

If a callable CD is sold before 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.** These are the simplest, and thus the most common, type of CD structure in the marketplace. Fixed-rate CDs can be issued as either noncallable (bullet) or 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 semiannual 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 begins somewhat below those of current fixed-rate CDs and gradually increases 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.
- **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.
- **Market-linked CDs (MLCDs®).** MLCDs provide investors the opportunity to participate in the potential gains of the equity market, in a way that may allow them to reduce the risk associated with equity investing. If held to maturity, 100% of the investor's principal investment is protected. (If sold before maturity, the CDs may be worth more or less than the initial investment.) The MLCD's rate of return is generally tied to the performance of an underlying equity index, such as the S&P 500.⁴ MLCDs may appeal to investors who are seeking a potentially greater return than a CD could provide and who are planning to hold the investment to maturity.

⁴"Standard & Poor's," "S&P," "S&P 500," "Standard & Poor's 500" and "500" are trademarks of The McGraw-Hill Companies, Inc. The CDs are not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the CDs.

At a glance

Fixed-rate CDs

- Most common CD type
- Issued as noncallable (“bullet”) or callable
- Interest rate remains until maturity or at call
- For investors who want consistent income

Step-up CDs

- Usually issued only as callable
- Offers schedule of rates that increase
- Amount of “steps” depends on call or maturity

Zero-coupon CDs

- Available in “bullet” or callable form
- No coupon payments
- Offered at a deep discount to par, then earns interest until maturity
- Interest is taxable each year
- For investors who do not require current income and/or saving for future expenses

Marked-Linked CDs®

- Possibility to profit from equity market with less risk than stocks
- Principal is invested if CD is held to maturity
- Rate tied to underlying equity index
- For investors who will hold CD to maturity

Investment and Insurance Products: ► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value

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