Brokered Certificates of Deposits

A guide to what you should know before you buy

Are brokered CDs right for you?

Brokered CDs are designed for investors who:

- Want access to a wide selection of issuers
- Would like to choose a CD structure that best fits their investment needs
- Desire the protection afforded by FDIC coverage
- Can accept the risks associated with investing in CDs

Wells Fargo Advisors wants to ensure that you are investing in brokered certificates of deposits (CDs) that best suit your investment objectives, risk tolerance, time horizon, and diversification needs. This guide will help you better understand the features, benefits, risks, and costs associated with brokered CDs, as well as how your Financial Advisor and Wells Fargo Advisors are compensated.

What are CDs?

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. To balance their assets and liabilities, banks must attract funds that will remain on deposit for a fixed term.

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. In return, investors receive a stated rate of interest that is paid in various installments ("coupon payments") over the life of that loan. Because investors may give up the right to withdraw their money without penalty (and possibly at all) before the CD matures, they generally receive a higher interest rate than they would on "demand deposit" 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, banks may use the nationwide brokerage community for distribution of CDs. The 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 up to FDIC limits. Keep in mind that FDIC insurance does not cover losses of principal (the initial investment amount) that are due to market fluctuation of principal or any amounts paid over the face value of the CD.

Brokered CDs, then, 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 easily executed within a brokerage account with just a phone call to a Financial Advisor. Investors do not receive physical certificates for their brokered CDs, but instead receive a periodic account statement detailing their CD holdings.

Brokered CDs come in two basic forms—non-callable and callable.

Non-callable "Bullet" CDs

The most basic kind of brokered CD has a fixed ("bullet") maturity date. Maturities generally range from three months to 10 years. Non-callable CDs are available in fixed-rate or zero-coupon structures.

Callable CDs

Callable CDs can be called by the issuing bank (the "issuer") before maturity. To achieve flexibility in managing their balance sheets, banks generally reward CD investors with a higher rate of interest on callable CDs in return for the right to call (pay back) the investor's principal before the CD's stated maturity date. A CD is called at the bank's discretion only. Callable CDs are offered in a wide range of maturities—typically three to 20 years. The non-call or "lockout" period (the time during which an issuer cannot call the CD) is usually six months 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 non-call 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 interest rate than the existing CD. Individuals 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.

Risks of callable CDs

Callable CDs are typically issued with longer maturities. For this reason, investors should purchase a callable CD only if they understand that the timing of the return of principal may be uncertain because of 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. In certain cases, the total return may be less than the yield 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. If it is not called, investors should be prepared to hold the CD until maturity.

If a callable CD is sold before maturity, the value of the CD will be subject to market conditions, including, but not limited to, interest rate changes, which could result in a significant loss from the initial investment amount. This feature is true of all brokered CDs. However, because callable CDs tend to have longer maturities, their price sensitivity to interest rate changes is greater.

CD Structures

Fixed-rate CDs—This CD structure is the simplest and most common in the marketplace. Fixed-rate CDs can be issued as either non-callable 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 monthly or semiannually, 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 those of current fixed-rate CDs and gradually increase over a specified timeframe. The coupon may "step up" (increase) only once or as often as quarterly until the issuer calls the CD or the CD matures.

Floating-rate CDs—Floating-rate CDs are CDs that pay interest based upon a predetermined spread over a reference rate or index. Floating-rate CDs present different investment considerations than fixed-rate or step-rate CDs. Depending on the type of floating-rate CD and the interest rate environment, the CD may pay substantially more, or substantially less, interest over the term of the CD than would be paid on a fixed-rate or step-rate CD of the same maturity. In addition, if the CD is subject to call by the issuer: (1) you may not receive the benefits of any anticipated increase in rates paid on a floating-rate CD if the CD is called, or (2) you may be required to hold the CD at a lower rate than prevailing market interest rates if the CD is not called. You should carefully review any supplemental material that describes the floating-rate and the basis for resetting the coupon. Also, if the CD is subject to call by the issuer, learn about the time periods when the issuer may call the CD.

Zero-coupon CDs (ZCDs)—For investors who do not require current income, ZCDs may be appealing. 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 accrete in value 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.

Important investment considerations

CDs are most suitable for purchasing and holding to maturity and, depending on the individual terms of your CD, early withdrawal may not be permitted. If your CD is callable by the issuer, you should be prepared to hold it according to its terms. Although not obligated to do so, Wells Fargo Advisors may maintain a secondary market in the CDs after their settlement date. If you are able to sell your CD before maturity, the price you receive will reflect prevailing market conditions, and your sales proceeds may be less than the amount you paid for your CD.

Compare features

You should compare the rates of return and other features of the CDs to other available investments before deciding to purchase a CD. The rates paid with respect to the CDs may be higher or lower than the rates on deposits or other instruments available directly from the issuer or through Wells Fargo Advisors.

Secondary market

The price at which a CD may be sold if a secondary market is available will reflect a markdown retained by Wells Fargo Advisors. Similarly, the price you may pay for any CD purchased in the secondary market will include a mark-up established by Wells Fargo Advisors. In the event you choose to sell a CD in the secondary market, you may receive less in sale proceeds than the original principal (par) amount of the CD or the estimated price on your account statement.

In the event that a CD is purchased in the secondary market at a premium over the par amount (or accreted value in the case of a ZCD), the premium is not insured. Therefore, if deposit insurance payments become necessary for the issuer, the owner of a CD purchased in the secondary market can incur a loss up to the amount of the premium paid for the CD.

Features and characteristics

Brokered CDs offer investors the following features:

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 needs.

FDIC coverage—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 **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., and Saturday and Sunday from 9:00 a.m. to 5:00 p.m., Eastern Time. For the hearing-impaired, the number is 1-800-925-4618.

Structure variety—Brokered CDs are available in a variety of structures, such as non-callable, callable, fixed-rate, variable-rate, market-index-linked, and zero-coupon. Interest payments may be made monthly or semiannually, or at maturity in the case of ZCDs and issues of one year or less.

Estate feature—A 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 of a CD, regardless of whether the current market value has fallen. The terms of this feature vary by issuer and there may be limitations on the use of this feature.

Risks

Investors need to be aware of certain risk factors associated with CDs—including limited liquidity, market risk, and tax implications. Investors who purchase CDs should do so only with the intent of holding the investment until maturity.

Redemption before maturity—Banks are not required to permit early withdrawal. You should determine whether early withdrawal is permitted and, if so, the amount of the penalty that the bank would impose if you withdrew your funds. If you think you may need your money before the CD matures, you should decide whether the penalty is a reasonable amount to pay for the opportunity to get your money early. If not, you should place your money in a shorter term CD or keep it in a different type of account.

Although not required to do so, banks may permit early withdrawal without penalty in certain circumstances, such as death or incapacity. Brokered CDs do not carry early withdrawal penalties as they can be sold in a secondary market if a market exists. However, selling prior to maturity could result in the brokered CD being worth less than your original investment.

Market risk—If an investor must sell a CD before maturity, the CD will be subject to market risk for early withdrawal, and so it may be worth more or less than its purchase price. When interest rates are moving higher, new CDs are issued with higher coupon rates, and the value of your CD will decline. When interest rates are moving lower, new CDs are issued with lower income payments, and the value of your CD will rise. In addition, there is no guarantee that your principal will be returned unless the investment is held to maturity.

Liquidity risk—Although CDs offer a set maturity, investors have limited opportunities to liquidate before maturity on certain specified dates. It is important that you refer to the CD offering term sheet or the disclosure statement and supplement for more detailed information.

Thus, unlike a security with an exchange listing and an active secondary market, redemption opportunities are limited. CDs may not be redeemable at the investor's option, because limited secondary markets exist for the sale of the CD. In other words, you may not be able to get the money you invested in the CD back when you want to liquidate.

Tax treatment

Interest—Interest earned on CDs is taxable as ordinary income. You may be able to defer taxes on your CD by holding it in an IRA or other retirement account.

You may be required to pay taxes annually on ZCDs and some contingent interest CDs if you hold the CD outside a retirement account, even though these CDs do not pay interest annually. This form of taxable income, referred to as "original issue discount," may be significant to you. If you have questions about the tax consequences of CDs, you should consult your tax advisor.

Gains and losses—Selling your CD in the secondary market before maturity may generate capital gains or capital losses. Depending on the amount of time you held the CD prior to liquidating will determine how any gains will be taxed. Capital losses may offset dollar-for-dollar capital gains you have realized on other investments (bonds, stocks, mutual funds, real estate, etc.). Please note that Wells Fargo Advisors, its affiliates and Financial Advisors may not offer tax, legal, or accounting advice. Due to the potential complexities of the tax treatment of CDs and the tax reporting requirements for CDs, you should consult with your tax or legal advisor before investing in any CD.

Costs of investing in brokered CDs

Upon purchase of a new issue CD, you typically will not incur a commission in processing the transaction. Generally, the CD is sold without a fee because your Financial Advisor receives compensation from the issuing bank. The compensation covers all costs incurred, including administration, transaction, and a sales concession paid to your Financial Advisor.

Secondary CDs are bought and sold between dealers and investors much like other fixed-income instruments. Dealers trade the securities at a net cost, which includes their own spread, or profit, on the transaction.

Investor characteristics

Suitability—Purchasers of CDs should be buy-and-hold investors seeking to earn a stated interest rate and protect their principal. Because of limited liquidity, CDs are not suited for short-term trading. You should not purchase CDs based on yield alone; you should also consider the credit risk or risk of default associated with the issuer, and the way in which that risk might affect the safety of the invested principal. In addition, you should not purchase a CD unless you can understand and bear the associated market, liquidity, and yield risks. CD investors should have the financial status, knowledge, and experience in financial and business matters to evaluate the merits and risks in light of their particular circumstances.

Diversification—Wells Fargo Advisors believes that investors should diversify their investments. It is recommended that investors observe an asset allocation strategy and not overweight their overall portfolio in any one class of securities. Although asset allocation can be an effective investment strategy, it cannot eliminate counterparty risk, as well as the risk of fluctuating prices and uncertain returns.

FDIC coverage—Generally, any accounts or deposits that you may maintain directly with a particular issuer, or through any other intermediary in the same insurable capacity in which the CDs are maintained, would be aggregated with the CDs for purposes of the maximum applicable deposit insurance amount. You are responsible for monitoring the total amount of deposits that you hold with any one issuer, including deposits you hold through the Firm and other intermediaries, so that you can determine the extent of deposit insurance coverage available to you on all your deposits, including the CDs. Wells Fargo Advisors is not responsible for any insured or uninsured portion of the CDs or any other deposits.

Additional information

To learn more about CDs, ask your Financial Advisor or visit the following websites:

Wells Fargo Advisors
wellsfargoadvisors.com

Federal Deposit Insurance Corporation
fdic.gov

Financial Industry Regulatory Authority (FINRA)
finra.org

U.S. Securities and Exchange Commission
sec.gov

Securities Industry and Financial Markets Association (SIFMA)
sifma.org

How your Financial Advisor and Wells Fargo Advisors are compensated on CDs

For helping you invest in the most appropriate CDs, Wells Fargo Advisors and your Financial Advisor are compensated in ways that vary depending on the selected investment. Your Financial Advisor will receive compensation in the form of a commission or markup from most transactions.

For most purchases, a Financial Advisor's compensation is based on the dollar amount purchased or sold. In certain fee-based accounts, a Financial Advisor's compensation is based on a percentage of assets in the account rather than on the sales concession, as mentioned above. The compensation formula that determines the amount of payment to your Financial Advisor in certain fee-based accounts is generally the same for all CDs.

Wells Fargo Advisors may receive compensation for making a market and keeping an inventory on select CD offerings. Wells Fargo Advisors may have an investment banking relationship with CD issuers. Disclosures of any such conflicts are noted on research reports.

Talk with your Financial Advisor

Determining whether brokered CDs are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Talk with your Financial Advisor today about how brokered CDs may help you work toward your investment goals.