# SmarterCDs℠

# CUSTOMIZED SOLUTIONS


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# SmartersCDs℠- Market Linked Certificates of Deposit

## How do Market Linked Certificates of Deposit (CDs) work?

A Market Linked CD is an investment product based on one or more underlying asset classes, such as a basket of securities or market indices. The structure of a Market Linked CD allows the investor to participate in the growth of the underlying asset class while retaining the characteristics of a traditional certificate of deposit - including protection against market decline. When held to maturity, a Market Linked CD's principal is protected with the investor receiving interest based on the performance of the underlying asset class during the term of the CD or on the redemption date. If the CD is redeemed prior to maturity, the principal will not be protected and the investor may realize a loss, even if the underlying asset has appreciated.

**The development of Market Linked CDs came from the increasing demand of clients willing to limit their upside performance in order to protect their principal investment.**

## Who should invest in Market Linked CDs?

While anyone can invest in Market Linked CDs, purchasers are commonly looking to secure their wealth and benefit from market growth while receiving protection from possible declines. Young families, conservative investors, families saving for college, baby boomers and retirees are examples of those who may choose to address these objectives by investing in Market Linked CDs.

As an alternative investment product, Market Linked CDs can complement an overall balanced portfolio while offering the potential to realize enhanced returns compared to traditional savings or deposit options.

## Performance

Market Linked CDs have the potential to earn greater returns than traditional fixed income instruments over the same duration. This performance is generated by the assets the CD is linked to and the payoff structure used. Market Linked CDs can be designed for growth strategies, income strategies or a combination of both.

## Protected Growth

Market Linked CDs provide the potential for capital appreciation based on the performance of an underlying asset or basket of assets with complete protection of the original deposit, when held to maturity. When issued by an FDIC insured bank, the FDIC insures the original deposit if the issuing bank becomes insolvent. The FDIC standard maximum deposit insurance amount is $250,000 per depositor per FDIC-insured institution.

## Diversification

**Asset Class:** Market Linked CDs can be linked to a wide variety of underlying asset classes such as equities, commodities, currencies, market indices, fixed income, inflation and more.

**Geography:** Exposure can be provided to foreign and emerging markets without the additional currency risks of direct market investment.

**Sophistication:** Market Linked CDs can be structured with various levels of complexity to accommodate specific investment needs that could be difficult to replicate by independent investors.

## Changing the status quo

Market Linked CDs have been developed due to demands from both investors and depositors as they searched through traditional investment and deposit products to suit their needs in today's markets. While the balance between risk and reward has always been a mutual challenge, Market Linked CDs may bridge the gap between both worlds. The protection of invested principal with financial market exposure is what makes Market Linked CDs an innovative and increasingly accepted product among investors and depositors alike.

**Market Linked CDs combine the upside potential of investing in the financial markets with the safety of a Certificate of Deposit.**

## Considerations

Like all investments or deposits, clients should review all of the risks associated with that specific deposit or investment. Market Linked CDs should be considered as a part of a balanced portfolio. The following risks may apply: performance/market risk, liquidity risk, costs and tax treatment. In addition, although Market Linked CDs are FDIC insured, any purchase greater than the limits set by the FDIC will be subject to the credit risk of the Issuer.

## Performance / Market Risk

The performance of Market Linked CDs is based on the performance of the underlying asset(s) with respect to the type of payoff structure. Generally, a Market Linked CD's posessive performance may be less than investing directly in the same underlying asset(s). Clients run the risk of underperforming a traditional fixed income instrument if the asset(s) used to determine the performance of the MLCD devalue over the life of the CD.

## Tax Treatment

Market Linked CDs may be subject to different tax treatments that are based upon the type of structure. Clients should review the offering document in order to determine what type of tax liabilities the holder may be responsible for annually. The client typically does not have tax liabilities if purchased in a qualified account like an IRA.

## Liquidity Risk

Market Linked CDs do not trade on a secondary market and can only be redeemed prior to maturity if the Issuer is able to unwind the CD early. Clients should purchase Market Linked CDs with the intent to hold the CD till maturity.

## Costs

Clients selling back their CD prior to maturity can realize some of the built in costs that were created when constructing the MLCD like hedging costs, placement fees, and breakage fees. These costs are likely to adversely affect the price at which the client can liquidate their CD prior to maturity.

# SmarterCDs℠ Market Linked Certificates of Deposit

## How the Rate is Determined

SmarterCDs℠ offer annual income potential that may be significantly higher than current traditional CD rates. Payment is typically determined each year by the average cumulative performance of a basket of stocks which may be individually subject to a cap and/or floor. However, SmarterCDs℠ adjust the return of any stock which has a zero or positive return to the maximum cap. Therefore, SmarterCDs℠ investors tend to have a mild to strong bullish market outlook.

Since the annual income potential relies heavily on a handful of stocks, the stock selection method of the basket may be crucial to the performance of the CD.

## Benefits of Investing

100% Principal Protection: The issuing bank promises to return principal at maturity, regardless of equity market performance, provided the SmarterCDs℠ is held to maturity.

Annual Income Potential: SmarterCDs℠ may pay a variable interest payment that may be significantly higher than current traditional CD rates and other comparable low risk investments.

FDIC Insurance: SmarterCDs℠ are protected by federal deposit insurance administered by the FDIC up to a maximum amount for all deposits held in the same capacity per depositor, per institution. FDIC insurance does not protect against loss if the SmarterCDs℠ is sold or redeemed prior to maturity. (FDIC insurance has been temporarily increased to $250,000, but is scheduled to revert back to $100,000 after December 31, 2013, unless extended. Amounts in excess of the FDIC limit are subject to the credit risk of the issuer.)

Estate Feature: Commonly referred to as a "survivor's option" or "death put", the estate feature generally allows for the redemption of the full principal amount at par without interest upon death or the delaration of incompetence of the beneficial owner under certain circumstances.

Flexibility: Can be customized to fit an investor's market view, risk tolerance, need for minimum return, and investment time horizon. Minimum investment requirement is $25,000.

## How it Works

Each year, a SmarterCDs℠ coupon payment is determined by the three step process below. Since the coupon payment may vary each year, this evaluation process is repeated on each coupon determination date.

Hypothetical SmarterCDs℠ Terms
**Maturity:** 6 Years
**Linked to:** basket of 10 stocks with each stock subject to a 10% cap
**Maximum Annual Coupon:** 10%
**Minimum Annual Coupon:** 0%
**100% Principal Protection; FDIC Insured**
(subject to the applicable limits); any amount that exceeds the FDIC limits is subject to the credit risk of the issuing bank.

## Why invest in SmarterCDs?

SmarterCDs℠ are designed for investors with a very mild to strong bullish outlook that desire 100% principal protection and FDIC insurance for their investment portfolio. SmarterCDs℠ may provide a high income stream based on the performance of a basket of stocks. In a worst-case scenario, due to poor performance of the underlying reference stocks, a SmarterCDs℠ investor will not receive any interest and will just receive the return of principal at maturity.

SmarterCDs℠ may outperform a direct investment in the underlying reference stocks in a mild bull market, a relatively flat, but positive market, and a bear market.

**Step 1**
Find the performance of each stock from the initial trade date to present

**Step 2**
If the performance is zero or positive then the stock's performance is boosted to the maximum cap. Positive perfomrmance that exceeds the cap is adjusted to the capped level. If the performance is negative, then use the negative return.

**Step 3**
Client receives a coupon that is equivalent to the average of the adjusted and negative stock returns

**Hypothetical Example:**

| Stock | Initial Level | Current Level | Cumulative Performance |
|---|---|---|---|
| #1 | 100 | 101 | 1.00% |
| #2 | 100 | 112 | 12.00% |
| #3 | 100 | 115 | 15.00% |
| #4 | 100 | 105 | 5.00% |
| #5 | 100 | 102 | 2.00% |
| #6 | 100 | 100 | 0.00% |
| #7 | 100 | 103 | 3.00% |
| #8 | 100 | 99 | -1.00% |
| #9 | 100 | 98 | -2.00% |
| #10 | 100 | 95 | -5.00% |

| Cumulative Performance | | Adjusted Performance (subject to cap) |
|---|---|---|
| 1.00% | boosted | 10% |
| 12.00% | capped | 10% |
| 15.00% | capped | 10% |
| 5.00% | boosted | 10% |
| 2.00% | boosted | 10% |
| 0.00% | boosted | 10% |
| 3.00% | boosted | 10% |
| -1.00% | | -1% |
| -2.00% | | -2% |
| -5.00% | | -5% |

| Adjusted Performance (subject to cap) | | Coupon Payment |
|---|---|---|
| 10% | | |
| 10% | | |
| 10% | | |
| 10% | | |
| 10% | Average | 6.20% |
| 10% | | |
| 10% | | |
| -1% | | |
| -2% | | |
| -5% | | |

# SmarterCDs℠ Market Linked Certificates of Deposit

The chart below illustrates the coupon payments for a hypothetical SmarterCDs℠ using the same terms on the previous page. To keep things simple, all 10 stocks will start at $100 per share and increase or decrease by the same amount each year.

Year 1: All 10 stocks increase 2% from the initial level. Each stock return is boosted to the cap of 10%. Year 1 coupon: 10%.

Year 2: All 10 stocks increase to 12% of the initial level. Since the cap for each stock is 10%, the return for each one is adjusted to 10%. Year 2 coupon: 10%.

Year 3: All 10 stocks remain flat for the year, but are still 12% higher than the initial level. This is considered a 12% initial-to-date return that is adjusted to 10% since each stock is capped at that level. Year 3 coupon: 10%.

Year 4: All 10 stocks drop from 112 to 100. However, the initial-to-date performance is 0%. Each stock return is boosted to the cap of 10%. Year 4 coupon: 10%.

Year 5: All 10 stocks drop from 100 to 90. The initial-to-date performance is -10% for each stock. No coupon paid in Year 5.

Year 6: All 10 stocks increase from 90 to 99. However, the initial-to-date performance is still negative at -1%. No coupon paid in Year 6; principal returned.

Conclusion: In this hypothetical scenario, a SmarterCDs℠ investor would have received four 10% coupon payments resulting in a total return of 40% over this 6 year period. An investor holding an equal weighted basket of the same 10 stocks would have suffered a -1% return in the same period.

| Stock | Initial Level | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|---|
| #1 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #2 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #3 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #4 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #5 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #6 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #7 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #8 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #9 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |
| #10 | 100 | 102 | 112 | 112 | 100 | 90 | 99 |

**Adjusted Initial-to-Date Returns, Capped at 10%**

| Stock | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| #1 | 10% | 10% | 10% | 10% | -10% | -1% |
| #2 | 10% | 10% | 10% | 10% | -10% | -1% |
| #3 | 10% | 10% | 10% | 10% | -10% | -1% |
| #4 | 10% | 10% | 10% | 10% | -10% | -1% |
| #5 | 10% | 10% | 10% | 10% | -10% | -1% |
| #6 | 10% | 10% | 10% | 10% | -10% | -1% |
| #7 | 10% | 10% | 10% | 10% | -10% | -1% |
| #8 | 10% | 10% | 10% | 10% | -10% | -1% |
| #9 | 10% | 10% | 10% | 10% | -10% | -1% |
| #10 | 10% | 10% | 10% | 10% | -10% | -1% |
| **Average of Capped Performances:** | 10.00% | 10.00% | 10.00% | 10.00% | -10.00% | -1.00% |
| **Minimum Return:** | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Annual Coupon:** | 10.00% | 10.00% | 10.00% | 10.00% | 0.00% | 0.00% |

## Important Considerations

Tax Implications: Interest income and any potential gain are generally taxed as ordinary interest income for U.S. federal income tax purposes. Please consult a tax advisor for additional tax implications.

No Early Redemption: SmarterCDs℠ should be purchased with the intention of holding them until maturity. Some SmarterCDs℠ may offer an early redemption opportunity, allowing holders the option to redeem prior to maturity. Generally, SmarterCDs℠ held to maturity are entitled to full return of the principal amount invested. A secondary market for the SmarterCDs℠ may develop, although there is no guarantee that any person will maintain a secondary market. The value of the SmarterCDs℠ sold prior to maturity in the secondary market will be subject to then prevailing market conditions and may include a transaction charge. The sale proceeds may be less than or more than the original purchase amount paid.

Liquidity Risk: Although many issuers of SmarterCD generally intend to maintain a secondary market, they are not obligated to do so. Liquidity risk may exist if the issuer chooses not to maintain a secondary market. Available liquidity may vary by issuer. Some issuers may maintain daily liquidity while others may be more limited. Early withdrawal is generally not permitted.

Secondary Market Risk: If a SmarterCD is sold in the secondary market, the investor is subject to secondary market risk, including the risk of loss, as the market price may be less than the initial principal or face value. There is no guarantee of principal return unless the SmarterCD is held to maturity. Factors that determine secondary market pricing may include, but are not limited to, supply and demand, general market conditions, then-current interest rates, the level, liquidity and volatility of any relevant index and time remaining until maturity. These factors differ from the parameters used to calculate the CD's final return at maturity. Therefore, secondary market pricing may not be equivalent to a return determined by the calculation method used at maturity.

May Not Pay Periodic Interest Payments: Most Equity-Linked CDs pay a contingent interest payment only at maturity. Equity-Linked CDs generally pay a variable-interest rate, ranging from zero to a pre-determined maximum amount, periodically depending on the performance of the underlying reference asset or index.

Credit Risk: Any amount higher than the maximum amount insured by the FDIC is an obligation of the issuer and is not insured by the FDIC.This portion is subject to the credit risk of the issuer.

Opportunity Costs: The opportunity cost of investing in SmarterCDs℠ can be defined as the forgone "risk-free rate of return" that would be received if the principal was invested in other fixed-income investments.

Before making any investment decision, you should obtain advice from your financial, legal and tax advisers for information about and analysis of the investment, its risks and its suitability in your particular circumstances.

# SmarterCDs℠- FAQs:

Market Linked certificates of deposit offer investors the ability to conveniently access underlyings and return profiles not typically available with other investment products.

### What are Market Linked certificates of deposit?

Market Linked certificates of deposit (CDs) are medium term, Federal Deposit Insurance Corporation (FDIC) insured savings investments representing the deposit of a specified amount of funds for a fixed period with an FDIC insured bank or savings institution. Unlike traditional fixed-rate CDs, Market Linked CDs are packaged investments that pay a variable rate of return based on the performance of an underlying asset (such as equities, commodities, interest rates or currencies), typically at maturity.

### Who backs the payment of Market Linked CDs?

Investors have credit risk to the bank for all payments due on Market Linked CDs – this includes the deposit amount as well as any amounts in excess of the deposit amount, if applicable, such as periodic interest or any return paid at maturity.

However, under certain circumstances and subject to specific rules, the deposit amount of Market Linked CDs is insured by the FDIC, an independent agency of the U.S. government, subject to applicable insurance limits. FDIC insurance protects investors against the loss of their deposit in the event that the issuing FDIC-insured bank fails. Amounts above the maximum deposit insurance amount are subject to the creditworthiness of the bank. Furthermore, the FDIC has taken the position that any amounts payable above the deposit amount that have not yet been ascertained and become due as well as secondary market premiums above the deposit amount (if any) are not insured by the FDIC.

### How much insurance, if any, is provided?

On July 21, 2010, the FDIC maximum deposit insurance amount was permanently raised for all account ownership categories to $250,000 per depositor per insured bank. CDs are eligible for FDIC insurance up to $250,000 for deposits held in the same ownership category (for example, individual accounts are insured separately from joint accounts, self-directed retirement accounts and/or revocable trust accounts). The table on the next page provides an overview of FDIC insurance coverage . For questions about FDIC coverage limits and requirements, visit www.FDIC.gov/deposit/deposits, call toll-free 1-877-ASK-FDIC, or ask your financial advisor. To calculate your deposit insurance coverage use the FDIC's Electronic Deposit Insurance Estimator (EDIE) at www.fdic.gov/edie.

### What is a "Death Put" or "Estate" Feature?

To the extent provided in the fact sheet, terms supplement and disclosure statement of a particular CD, upon the death or legal incapacitation of the depositor of the Market Linked CD, the beneficiary of the estate of the deceased or the legal representative of the adjudicated incompetent has the right (but not the obligation) to withdraw the deposit amount at par (which is equal to the initial amount invested) without penalty prior to maturity of the investment.

# Market Linked Certificates of Deposit

### Is there a secondary market for Market Linked CDs?

The bank or its affiliates may, but are not required to, maintain a secondary market for Market Linked CDs. If a secondary market is provided, pricing will be determined by the issuing bank of the CD, its affiliates or a designated market maker. Market Linked CDs will not be listed on any exchange and, if a secondary market is provided, may trade at a discount or premium to par, depending on market conditions and other factors, including but not limited to the performance of the underlying assets, interest rates and time to maturity. As such, investors should be willing to hold their Market Linked CDs until maturity.

### Where and how can I obtain more information on Market Linked CDs?

Please refer to the term sheet, fact sheet, terms supplement and disclosure statement, as applicable, for the specific details of any Market Linked CD offering (which can be obtained from the bank, or any broker dealer or selling agent participating in the offering). Financial advisors should refer to their compliance representative for additional information. Individual investors should contact their financial advisor for additional information.

## FDIC Deposit Insurance Coverage Summary

FDIC deposit insurance coverage limits by account ownership category.

| | |
|---|---|
| Single Accounts (owned by one person) | $ 250,000 per owner |
| Joint Accounts (owned by two or more persons) | $ 250,000 per co-owner |
| Certain Retirement Accounts (includes IRAs) | $ 250,000 per owner |
| Revocable Trust Accounts | $ 250,000 per owner per beneficiary up to 5 beneficiaries (more coverage available with 6 or more beneficiaries subject to specific limitations and requirements) |
| Corporation,Partnership and Unincorporated Association Accounts | $ 250,000 per corporation, partnership or unincorporated association |
| Irrevocable Trust Accounts | $ 250,000 for the non-contingent, ascertainable interest of each beneficiary |
| Employee Benefit Plan Accounts | $ 250,000 for the non-contingent, ascertainable interest of each plan participant |

Source: www.fdic.gov/deposit/deposits (as of July 21, 2010).

Before purchasing a Market Linked certificate of deposit, investors should carefully consider the risks associated with an investment in the Market Linked certificate of deposit and whether the Market Linked certificate of deposit is a suitable investment for them. Before investing, prospective investors should read the terms supplement or disclosure statement, as applicable, relating to the particular Market Linked certificate of deposit. In addition, investors are encouraged to consult with their investment, legal, accounting, tax and other advisers in connection with any investment in a Market Linked certificate of deposit.

## CONTACT US

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