Certificates of deposit

Wealth Management

Many investors are familiar with certificates of deposit offered at the local bank. However, not all investors are familiar with the many types of certificates of deposit available for purchase through RBC Wealth Management.

Certificates of deposit (CDs) are time deposits issued by banks and thrifts across the country that are insured through the Federal Deposit Insurance Corporation (FDIC). FDIC insurance protects against the unlikely failure of the issuing bank and is subject to certain requirements. RBC Wealth Management is not an FDIC-insured institution and does not issue CDs.

CDs are a common product among conservative, buy-and-hold investors looking for yields that are typically higher than Treasury securities of the same maturity, with the safety of FDIC insurance. Most CDs offer a fixed rate of interest, a specified maturity date, a low minimum deposit of $1,000, and an "estate put" feature that makes the CDs redeemable at par upon death of the holder. CDs with short maturities (less than one year) generally pay interest at maturity, while longer-term maturities usually pay interest semi-annually.

CDs purchased through RBC Wealth Management have all of the above-mentioned benefits of CDs purchased at a bank plus a few more.

Issuer diversification

If you intend to purchase more than $250,000 in CDs, RBC Wealth Management has access to many issuers, which can make it possible for you to remain fully FDIC-insured on your CD deposits.

Convenience

At RBC Wealth Management, you can purchase CDs from many different issuers all within one account. Account statements are mailed to you at least quarterly, which makes record keeping convenient. Also, interest and principal payments can be automatically credited to your account, which allows for easy reinvestment of funds.

Liquidity

CDs purchased through RBC Wealth Management can be sold in the secondary market, avoiding penalties imposed by the issuer on early withdrawals. We maintain a secondary market in all CDs we have originally made available. However, prices will fluctuate according to market conditions. In addition, most CDs purchased through RBC Wealth Management have an "estate put" feature, which makes them redeemable at par value upon death of holder.

Choice of structure

Through RBC Wealth Management you can purchase CDs with structures that are not usually offered at banks, such as callable CDs, multiple-step callable CDs and market-linked CDs. Below is a brief description of these structures:

- **Callable CDs** — Attractive if you are looking for higher interest rates (coupons) than would be available in similar maturity, non-callable CDs. Callable CDs have higher coupons because the issuer can redeem ("call") the CD before maturity according to a predetermined schedule. Issuers would most likely call a CD when interest rates have declined because they can issue new CDs at lower interest rates. The risk to you is that you will have to reinvest your money at lower interest rates if your CD is called.
- **Multiple-step callable CDs** — Differ from conventional CDs in two important ways. First, these CDs are callable by the issuer (in the same manner as described in callable CDs). Secondly, their coupon rate is not fixed but rather is increased ("stepped-up") or decreased ("stepped-down") according to a predetermined schedule. Consequently they are named "step-up CDs" and "step-down CDs."

Non-deposit investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

- Step-up CDs are attractive in a moderately rising interest rate environment because the coupon increases the longer it remains outstanding. Step-down CDs are attractive in a stable interest rate environment because the first year's coupon is so high that it compensates for the stepped-down coupon during the remaining years (if rates remain stable).

  The risk for investors in multiple-step callable CDs arises from the volatility of interest rates. If interest rates fall, investors would be faced with the possibility of their CD being called away earlier than expected and reinvesting their money at lower rates.

- **Equity-linked CDs** — Pay interest linked to the performance of a designated stock market index. If the market goes up, your investment goes up. If the market declines you may not receive a return, but you will not receive less than your original principal if your deposit is held to maturity. In addition, equity-linked CDs have the added security of FDIC insurance on the principal investment, up to $250,000. Additional risks may be present, depending on the type of equity-linked CD.

Additional information

CDs are designed to be "buy and hold" products. Although CDs may be sold prior to maturity, there is no guarantee of a secondary market. The time to maturity, interest rates and credit worthiness of the issuer can all affect the value. CDs are subject to credit risk of the issuer, and are FDIC insured, which provides principal protection against the unlikely event of a failure of the issuing bank. However, any deposits that exceed the applicable FDIC limits are subject to the credit risk of the issuer. Insolvency of the issuer may result in early repayment of the principle of a CD.

FDIC insurance

The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted on July 21, 2010, permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. All CDs offered through your RBC Wealth Management financial advisor are FDIC-insured up to applicable limits.

In the event that a bank or thrift fails, depositors are fully insured up to $250,000. This insurance covers principal and interest up to $250,000. In addition, federal law provides up to $250,000 in deposit insurance coverage for self-directed retirement accounts, such as Individual Retirement Accounts (IRAs). It is important to remember that this insurance ceiling applies to all deposits at an FDIC-insured institution. For example, if an individual purchases one or more CDs from the same bank or S&L, for a combined total exceeding $250,000, the total insurance coverage is capped at $250,000. However, an individual can be fully FDIC-insured on CD amounts greater than $250,000 in their RBC Wealth Management account if they purchase CDs from different banks or S&Ls in order to not exceed the $250,000 limit at any one institution.

Individual and joint accounts are insured separately, allowing a married couple, for example, to have up to $500,000 worth of insured deposits at one institution.

For instance, if a husband and wife each have separate accounts containing $250,000 worth of CDs from the same bank or S&L, each individual account is insured for $250,000. In addition, the same two individuals could also have a joint account with up to $500,000 worth of CDs, thereby having a combined total of $1,000,000 in insured deposits from one institution. In order to remain fully insured, investors must avoid going over the insurance ceiling at any one institution.

For more information concerning CDs and market-linked CDs contact your RBC Wealth Management financial advisor.

RBC Wealth Management does not make a market on Index Linked Insured Deposits. A market discount will apply for early liquidations.

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