# Structured Strategies

## Market-Linked CDs & FDIC Insurance

# What Happens to My Investment if the Issuer Defaults?

A Market-Linked CD (MLCD) has **full principal protection if held to maturity;** however, the investment is still subject to the credit risk of the issuer. Given that an MLCD is a bank deposit, it is covered by FDIC deposit insurance up to $250,000 per account.1 The Federal Deposit Insurance Corporation, an independent agency of the United States government, **protects against loss** in the event an FDIC-insured bank or savings association fails.1 FDIC is an additional level of protection for consumers to feel safe about **investing their money**.

FDIC insurance does not insure for positive movements in the underlying asset that have not yet been credited to the MLCD, and therefore would not be paid if an issuer becomes insolvent. However, if there is a principal protection guarantee at maturity, the FDIC will cover the principal and any accrued interest to the applicable limits if the issuer becomes insolvent.

The FDIC provides separate insurance coverage for funds that depositors may have in different categories of legal ownership. The FDIC refers to these different categories as "ownership categories." Below is a list of accounts the FDIC will insure, depending on ownership:

AN INVESTOR SHOULD BE AWARE THAT IF THE VALUE OF THEIR MLCD EXCEEDS THE FDIC INSURED LIMITS, THEN THE ADDITIONAL VALUE IN EXCESS OF THE LIMIT WILL NOT BE INSURED BY THE FDIC AND IS SUBJECT TO THE CREDIT RISK OF THE ISSUER.

- **Single Account** – $250,000 per owner.
- **Individual Retirement Account** – $250,000 per owner.
- **Joint Account** – $250,000 per co-owner; if a married couple each will receive $250,000.
- **Revocable Trust Account** – Owner insured $250,000 for each unique beneficiary designated.
- **Irrevocable Trust Account** – $250,000 for the trust.
- **Employee Benefit Plan Account** – $250,000 for the non-contingent interest of each plan participant.
- **Government Account** – $250,000 per official custodian.
- **Corporation, Partnership, or Unincorporated Association Account** – $250,000 per corporation, partnership or unincorporated association.

This means that a bank customer who has multiple accounts with MLCDs may qualify for more than $250,000 in insurance coverage if the customer's funds are **deposited in different ownership categories** and the requirements for each ownership category are met. Owning an MLCD in numerous accounts can maximize the aggregate FDIC deposit insurance coverage for multiple MLCDs.

For example, if structured correctly in different ownership categories, one person can receive $250,000 of FDIC insurance on a Single Account, a Joint Account shared with their spouse and an Individual Retirement Account. This would amount to $750,000 in FDIC insurance coverage.

**One should consider how to best allocate MLCDs in their accounts in different ownership categories to best maximize FDIC insurance coverage, below is an example.**

| ACCOUNT OWNER | ACCOUNT TYPE | BENEFICIARY | INSURABLE AMOUNT LIMIT |
|---|---|---|---|
| Married Spouse 1 | Single Account | | $250,000 |
| Married Spouse 2 | Single Account | | $250,000 |
| Married Spouse 1 & 2 | Joint Account | | $500,000 |
| Married Spouse 1 | Revocable Trust Account | Married Spouse 2 | $250,000 |
| Married Spouse 2 | Revocable Trust Account | Married Spouse 1 | $250,000 |
| Married Spouse 1 & 2 Trust | Revocable Trust Account | Child 1<br>Child 2 | $1,000,000 |
| Married Spouse 1 | Individual Retirement Account | | $250,000 |
| Married Spouse 2 | Individual Retirement Account | | $250,000 |
| **Total FDIC Insurable Amount** | | | **$3,250,000** |

*Payable in the event of death to both parties, $250,000 per account owner per beneficiary. In this example, $500,000 to each beneficiary

1. Market Linked CDs are FDIC insured up to the FDIC limits backed by the full faith and credit of the U.S. Government. FDIC insurance is up to $250,000 per depositor, per FDIC insured bank, per ownership category. For more information see: https://www.fdic.gov/deposi deposits/faq.html

2. For more information on ownership and account limits see: https://www.fdic.gov/deposit/covered/categories.html

# Things to Consider When Investing in an MLCD:

**Credit Risk** — Risk associated with the issuer defaulting on the bank deposit for any amount above the FDIC insured limit.

**Taxation Implications** — Please consult a tax professional on the tax treatment of these products, as ISC does not provide tax advice.

**Liquidity Risk** — MLCDs do not have a traditional secondary market and are designed to be held to maturity; therefore, these products should be considered illiquid when purchased. However, if an MLCD is sold back to the issuer prior to maturity, the amount received may be less than the principal amount due to market factors and the time to maturity.

**Performance Risk** — MLCDs offer potential for greater upside, but there is no guarantee that the investment will outperform the risk-free rate of the return. Also, fees and expenses can be higher than more traditional investments.

**Principal Risk** — If MLCDs are repurchased by the issuer prior to maturity, principal can be lost as these investments are designed to be held to maturity.

**Reinvestment Risk** — if a product is auto called or redeemed early, there is no guarantee that the investor may be able to reinvest the cash flow into another investment with a comparable return or product with similar level of risk.

**Market Risk** — MLCDs are linked to the performance of an underlying asset. If the value of the underlying asset does not go up, then the MLCD may not generate a return.

Institutional Securities Corporation, member FINRA/SIPC
3500 Oak Lawn Ave Suite 400, Dallas TX, 75219, United States | 800-888-3520