

# Schwab's Securities Lending Fully Paid (SLFP) Program

## Frequently Asked Questions

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### What is Schwab's SLFP program?

This program offers enrolled clients monthly income for lending securities to Schwab that are in high demand by other investors. While the securities are on loan to Schwab, program participants can sell them or have them returned at any time.

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### How does the SLFP program work?

After clients complete the Securities Lending Agreement enrollment form, they can accept offers from Schwab to borrow their securities. Once a client accepts an offer, Schwab provides collateral for the securities and then borrows them. The securities move to a supplemental lending account, which can be viewed on Schwab.com and on account statements.

Schwab pays clients an agreed-upon interest rate for borrowing their securities. This income is calculated daily based on the securities' closing market value and is credited directly to the clients' supplemental Schwab accounts on a monthly basis. Any funds (e.g., loan income, sale proceeds, or substitute dividends) posted to the supplemental account will automatically sweep into the clients' primary Schwab account, providing them with access to the funds.

Here is a hypothetical example of how the loan income would be calculated if you choose to participate in the SLFP program:

Estimated loan income per month for lending 15,000 shares of ABC security at a 2% annual interest rate (assumes \$20 per share):

$$15,000 \times \$20 \times 2\% \times (30/360) = \$500 \text{ per month}^1$$

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### What is a fully paid security?

Regulations require Schwab to receive written consent before borrowing fully paid securities from clients. As part of this process, borrowed securities are moved to a new supplemental account so Schwab can generate account statements showing securities on loan, and to calculate the loan income owed each client.

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### What are the advantages of participating in the SLFP program?

- Income accrues daily and is paid monthly.<sup>2</sup>
- You receive at least 100% collateral.
- You only need to enroll an account in the program once.
- Current or future offers from Schwab to borrow securities in the account can be accepted via Schwab.com, email, or phone.
- The program is available at no cost to you.
- You retain the right to sell loaned shares and can request that your shares be returned at any time.

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### Are there any potential disadvantages?

**Market risk.** There is the potential for downward pressure on the price of a loaned security if the security is borrowed to facilitate a short sale.

**Tax consequences.** Instead of actual dividends, you may receive substitute payments in lieu of dividends (PILs). This may have tax consequences, because PILs may not be entitled to the same tax treatment as may have been applied to a dividend payment. Schwab is not required to compensate you for any differential tax treatment between dividends and PILs.

**Loss of SIPC protection.** Because borrowed securities may not be covered under the programs of the Securities Investor Protection Corporation (SIPC), loans are secured by collateral provided by Schwab. In the unlikely event of default by Schwab, you can draw upon this collateral, which may be your only restitution if Schwab fails to return the borrowed securities.

**Loan term.** Schwab may terminate a loan at any time. You will be sent a notification upon the termination of a loan.

**Loss of voting rights.** During the term of the loan, title to the securities is transferred to Schwab, providing Schwab with all incidents of ownership, including the right to vote on corporate actions and the right to transfer the loaned securities to others.

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## Why does the SLFP program provide collateral?

While securities are on loan, they are not protected by the SIPC, which helps recover lost assets at failed brokerage firms. As a result, Schwab provides clients with collateral for the full value of securities it borrows through the SLFP program. Please note that collateral should only be withdrawn from an account if there is a “termination event,” such as the unlikely event that Schwab files for bankruptcy protection.

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## To whom does Schwab lend the securities?

Schwab lends securities to other clients or financial institutions to facilitate their trading strategies and/or fulfill settlement obligations. Please note that the principal reason for borrowing securities is to facilitate a short sale.

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## How long do loans last?

It varies significantly; some may last for many months, while others may be short term and last less than one month. Typically, as long as there is demand for the security in the market, the shares will remain on loan. Schwab may terminate loans at any time and will send a notification upon termination.

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## What do I need to do to participate in the SLFP program?

1. Carefully read and consider all documentation provided by Schwab.
2. Read the Securities Lending Agreement and all other enrollment documents; then sign, date, and submit them to Schwab.

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## Who is eligible?

The SLFP program is offered to Schwab clients who hold fully paid securities that are in high demand in the securities lending market.

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## How will I be compensated?

Schwab will pay you an agreed-upon interest rate as set forth in the confirmation for the loan. The loan income will be computed daily based upon the market value of the loaned securities and on a 360-day year, and income will be payable by Schwab to the client by the 15th day of the month following the month in which the loan income was earned. The loan income is subject to change and is based on supply/demand in the market.

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## Can I sell my shares at any time?

You may enter an order to sell loaned shares at any time. A sale will be deemed a termination event and will end the loan. If you have short-term plans to sell the shares, Schwab requests that you, in good faith, decline to participate in the SLFP program.

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## Can I sell covered calls in the supplemental lending account?

No, you may only sell shares on loan, or request that shares be returned by Schwab. Please note that no trading other than the sale of the loaned shares is permitted in the supplemental lending account.

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## How does Schwab benefit from the use of my securities?

Schwab intends to lend your securities to other clients, broker-dealers, or market participants. Schwab's profitability on such loans is generally measured by the difference, or “spread,” between the interest rate paid to you and the costs of maintaining collateral (as well as other risk management functions), and the interest rate and other income earned by Schwab on the further lending of your securities. The spread earned by Schwab will vary depending on the demand for the security. Schwab may seek to pay you as low a rate as possible, consistent with Schwab's view of competitive necessities. By participating in the SLFP program, you agree that Schwab may retain this spread as compensation for Schwab's services and risk management practices. You acknowledge and agree that Schwab personnel may be compensated based on the profitability of the loans.

<sup>1</sup> This income calculation is hypothetical (for illustrative purposes only) and is not an indication of future results. Income will be computed daily based on the closing prices of the borrowed shares and on a 360-day year. Share price and interest rates may fluctuate based on market conditions, which will impact potential earnings. Interest rates used to calculate earnings are subject to change without prior notice.

<sup>2</sup> Income is calculated daily based on the closing price of the loaned shares and on a 360-day year. Income is credited directly to your Schwab account on a monthly basis. Share price and interest rates may fluctuate based on market conditions, which will affect potential earnings. Income is reported as “other income” in box 3 on IRS Form 1099-MISC for taxable accounts. Interest rates used to calculate earnings are subject to change without prior notice.

Notice: The principal reason to borrow a security is to facilitate a short sale. Not all securities and account types are eligible for the SLFP program. Any dividends and other distributions paid on securities that you have lent to Schwab will be paid to Schwab. Schwab will pass on to you any cash dividends and distributions to the full extent that you would have been entitled had you not lent such securities to Schwab. Schwab will deposit such cash dividends and distributions into your account on the same day as Schwab receives the cash payment. Such payment by Schwab may not be entitled to the same tax treatment as may have been applied to the receipt of a dividend. Schwab is not required to compensate you for any differential tax treatment between dividends and payments in lieu of dividends. This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner, or investment manager. Participation in SLFP is based on enrollment. Share price and interest rates may fluctuate based on market conditions, which will impact potential earnings. Interest rates used to calculate earnings are subject to change without prior notice.