Margin Borrowing at Schwab
Overview and Disclosure Statement

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This is important information regarding margin borrowing, if you have requested the margin feature on your brokerage account. Please retain this document for your files.

A margin loan can be a powerful tool for maximizing your investments and is a convenient way to borrow against the securities you hold in your portfolio.

Margin loan proceeds can be used to buy additional securities and diversify your portfolio, as well as for non-investing needs and activities. Other benefits of margin loans can include competitive rates, no loan-origination fees and no preset payment schedule.

Schwab's margin account also enables you to sell short and potentially profit from downward price movements. Selling short involves additional market risk; be sure to familiarize yourself with short selling before using this strategy.

A complete list of terms and conditions pertaining to margin trading and short selling, including credit terms and policies, can be found in the Account Agreement. Please read this important document before opening a margin account.

When considering a margin loan, you should determine how the use of margin fits your own investment philosophy. Because of the risks involved, it is important that you fully understand the rules and requirements involved in trading securities on margin. The following paragraphs highlight some of these critical aspects of margin trading:

<u>Margin trading increases your level of market risk</u>. Margin trading increases your buying power, allowing you to purchase a greater amount of securities with your investing dollar. Therefore, your exposure to market volatility increases—a declining market could result in even greater losses. *A decline in the value of your securities that you purchase on margin may require you to provide additional funds to Schwab in order to avoid the forced sale of those securities or other securities in your account*.

<u>Your downside is not limited to the collateral value in your margin account</u>. If the securities in your account decline in value, so does the value of the collateral supporting your loan. When the value of the collateral falls below the maintenance margin requirements, or Schwab's higher "house" requirements, Schwab can move to protect its position. In order to cover margin deficiencies, Schwab may issue you a margin call—a request for additional cash—or sell securities from your account. If a sale does not cover the deficiency, you will be responsible for any shortfall.

<u>Schwab may initiate the sale of any securities in your account, without contacting you, to meet a margin call</u>. Schwab will attempt to involve you in the case of margin deficiency; however, market conditions may require the firm to quickly sell any of your securities without your consent. Because the securities are collateral for the margin loan, Schwab has the right to decide which security to sell in order to protect its interests. Even if Schwab has contacted you and provided a specific date by which you can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without prior notice to you.

<u>Schwab may increase its "house" maintenance margin requirements at any time and is not required to provide you with advance written notice</u>. Changes in Schwab's policy regarding "house" maintenance margin requirements often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause Schwab to liquidate or sell securities in your account.

<u>You are not entitled to an extension of time on a margin call</u>. While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

Some accounts that carry a margin loan balance and hold dividend-paying securities may receive a "substitute income payment in lieu of a dividend" (PIL) which may be taxable as ordinary income. Taxable accounts that receive a PIL instead of a qualified dividend may also receive a supplemental credit from Schwab. This will be described on customer statements as a "Schwab substitute income credit." Schwab will not credit your account with this additional payment when we can identify instances where a dividend is not qualified.

- This credit is NOT "payment in lieu," and is unrelated to any payment from either the security issuer or the borrower.
- It is a discretionary credit from Schwab which may be discontinued in the future with or without notice.*
- It may be subject to tax at your ordinary income tax rate. Please consult your tax advisor about your specific tax situation.
- Because individual tax situations differ, Schwab cannot precisely calculate the additional tax costs a client might incur. Therefore, we do not intend, nor should clients expect, for this payment to be an exact reimbursement of any excess tax cost.

*Please refer to the "Loan Consent" section of your Account Agreement which states that no compensation is due in connection with such loans and that Schwab "is not required to compensate you for any differential tax treatment between dividends and payments in lieu of dividends."

When using margin, please keep these important rules and conditions in mind. To further explore how margin borrowing can work for you, please contact us at 1-800-435-4000, or call your team. Used correctly, and within one's means, a margin loan can be a valuable investment tool.