What are *Floating Rate* InterNotes?

Floating rate InterNotes are new issue notes offered at par ($1,000 per note) and offer many of the same features as fixed rate InterNotes. Floating rate InterNotes may be offered by many of the same investment grade issuers that offer fixed rate InterNotes.

The key difference between fixed and floating rate InterNotes is the calculation of the coupon over the life of the note. Fixed rate InterNotes coupons are set at offering and are consistent throughout the life of the note. Floating rate InterNotes coupons are based on a spread which is set at offering and a predetermined benchmark or index such as U.S. Treasury bills (T-bills) which is reset throughout the life of the note. The floating rate note day count basis may be calculated using an actual/actual basis versus a 30/360 basis for the fixed rate notes.

Example: *If the coupon rate is equal to a spread of 50 basis points over the 3-month U.S. T-bill rate, at offering, this will equal a coupon of 1.60% based on a 1.10% T-Bill rate. After 3 months, if the 3-month T-bill were to then be 1.20%, the InterNotes coupon will be reset to 1.70% for the next 3 months.*

Why Floating Rate InterNotes may be attractive.

- Floating rate notes can be an attractive addition to an investment portfolio, particularly for an investor who expects interest rates to rise. Floating rate notes can perform better in a rising interest rate environment, as the index of the note will likely rise in a rising rate environment.
- Floating rate notes may provide inflation protection.
- Floating rate notes can allow an investor to more closely match floating rate income to a floating rate liability such as an adjustable rate mortgage.
- Floating rate notes can save an investor the costs of constantly rolling over short-term securities as they mature.

Some floating rate InterNotes may offer the following features:

- **Caps** – if a floating rate note includes a cap, this is the maximum amount the note will pay.

Example: *a floating rate note with a cap of 6% will not pay more than 6% even if the index plus the spread rises above this level.*

- **Floors** – if a floating rate note includes a floor, this is the minimum rate the note will pay.

Example: *a floating rate note with a floor of 2% will not pay less than a 2% return even if the index plus the spread falls below 2%.*

- **Collars** – if a floating rate note includes a cap and a floor this is called a collar. This note will have a range of payment coupons with a minimum amount of the floor level and a maximum amount of the cap level.

Why Floating Rate InterNotes are not for every investor

Floating rate notes do not assure the amount of income an investor will receive from their holdings. There is no guarantee the investor will receive a stable or rising coupon rate.

Floating rate structures can be more complicated to track due to a changing interest rate, and features such as caps, floors and collars.

The original coupon payment can fall if the underlying index decreases, therefore reducing the amount of income the investor receives.

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Bonds for today's investor.

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