BANK OF AMERICA

Merrill Edge® Self-Directed

Margin Handbook

Margin Risk Disclosure Statement

In accordance with requirements of FINRA, Merrill is furnishing this Margin Risks Disclosure Statement. This document will provide some basic information about purchasing securities on margin and alert you to the risks involved with maintaining a margin account. Merrill refers to margin as the margin lending program. When you purchase securities, you may pay for the securities in full, or if your account has been established as a margin account with the margin lending program, you may borrow part of the purchase price from Merrill, thereby leveraging your investment. If you choose to borrow funds for your purchase, Merrill's collateral for the loan will be the securities purchased, other assets in your margin account and your assets in any other accounts at Merrill other than retirement accounts (such as IRAs). If the securities in your margin account decline in value, so does the value of the collateral supporting your loan, and, as a result, we can take action, such as to issue a margin call and/or sell securities in any of your accounts held with us, in order to maintain the required equity in your account. If your account has a Visa® card and/or checks, you may also create a margin debit if your withdrawals (by Visa card, checks, preauthorized debits, FTS or other transfers) exceed the sum of any available free credit balances plus available money account balances. Please refer to your account documents for more information.

Also note that it may be more advantageous to pay cash than to use margin for smaller securities purchases. On smaller securities purchases, a higher percentage of the transaction cost goes to commissions and interest charges, which are generally higher on smaller balances. The commissions plus interest charges could equal or exceed any appreciation in your securities. This is being done to mirror how the margin risk disclosure appears on all other client facing material.

Before opening a margin account, you should carefully review the terms governing margin loans. For Individual Investor Accounts, these terms are contained in the Margin Lending Program Client Agreement. For all other accounts, the terms are in your account agreement and disclosures. It is important that you fully understand the risks involved in using margin. This is being done to mirror how the margin risk disclosure appears on all other client facing material

These risks including the following:

* **You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to us to avoid the forced sale of those securities or other securities or assets in your account(s).
* **We can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements or Merrill's higher "house" requirements, we can sell the securities or other assets in any of your accounts held by us to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.
* **We can sell your securities or other assets without contacting you.** Some investors mistakenly believe that they must be contacted for a margin call to be valid, and that securities or other assets in their accounts cannot be liquidated to meet the call unless they are contacted first. This is not the case. We will attempt to notify you of margin calls, but we are not required to do so. Even if we have contacted you and provided a specific date by which you can meet a margin call, we can still take necessary steps to protect our financial interests, including immediately selling the securities or other assets without notice to you.
* **You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities or other assets are collateral for the margin loan, we have the right to decide which securities or other assets to sell in order to protect our interests.
* **We can increase our "house" maintenance margin requirements at any time and are not required to provide you advance written notice.** These changes in our policy may take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause us to liquidate or sell securities in your account(s).
* **You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to you under certain conditions, you do not have a right to the extension.

If you have any questions or concerns about margin and the margin lending program, please contact the Merrill Edge Self-Directed Investment Center.

Options Risk Disclosures

Options involve risk and are not suitable for all investors. Certain requirements must be met to trade options. Before engaging in the purchase or sale of options, investors should understand the nature of and extent of their rights and obligations and be aware of the risks involved in investing with options. Please read the options disclosure document titled Characteristics and Risks of Standardized Options (PDF) before considering any option transaction. You may also call the Investment Center at 877.653.4732 for a copy. A separate client agreement is needed. Options contracts are assessed a .65 per-contract charge.

The maximum loss, gain and breakeven of any options strategy only remains as defined so long as the strategy contains all original positions. Trading, rolling, assignment, or exercise of any portion of the strategy will result in a new maximum loss, gain and breakeven calculation, which will be materially different from the calculation when the strategy remains intact with all of the contemplated legs or positions. This is applicable to all options strategies inclusive of long options, short options and spreads. To learn more about Merrill's uncovered option handling practices, view Naked Option Stress Analysis (NOSA) (PDF).

Early assignment risk is always present for option writers (specific to American-style options only). Early assignment risk may be amplified in the event a call writer is short an option during the period the underlying security has an ex-dividend date. This is referred to as dividend risk.

Long options are exercised and short options are assigned. Note that American-style options can be assigned/exercised at any time through the day of expiration without prior notice. Options can be assigned/exercised after market close on expiration day. View specific Merrill Option Exercise & Assignment Practices (PDF).

Important Information

Please remember there's always the potential of losing money when investing in securities. The following information is intended for Merrill Edge Self-Directed clients to learn more about margin trading rules and requirements, especially for trades entered online through merrilledge.com. Merrill Edge Self-Directed clients may contact the Investment Center with questions about the Merrill Edge Margin Handbook.

This handbook contains information, terminology and requirements associated with margin trading at Merrill. As a Merrill Edge Self-Directed client, you will have access to your accounts and, if approved, be permitted to enter margin trades online. We believe you should have a basic understanding of margin prior to entering trades involving the extension of credit. **Please note that the examples contained in this handbook do not include commissions, margin interest, account fees or any other fees associated with your Merrill Edge Self-Directed account.**

Table of Contents

What Is Margin?

A margin account is a loan account. Margin is an extension of credit by Merrill using marginable securities held as collateral. You can use margin loans to purchase additional securities or withdraw funds for other purposes. Margin accounts can also be used for short selling securities. Merrill refers to margin as the Margin Lending Program.

The margin rate you pay is the current Merrill Base Lending Rate (BLR) plus a supplementary percentage or “spread” based on (1) your average daily loan or debit balance; and (2) the value of assets and liabilities within your “Relationship Group”. The applicable margin interest rate is adjusted weekly with reference to commercial interest rates and market conditions.

The amount of money that can be borrowed and the terms of the Margin Lending Program are governed by the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and Merrill.

To be considered for a margin account, you must apply at account opening or separately using the Margin Lending Program Application and Agreement and maintain at least $2,000 in equity through the deposit of cash or marginable securities.

After you have met the minimum requirements, initial equity will be based on the Regulation T (Reg T) requirement, which is currently 50% of the purchase price of most securities. This means that if you wish to purchase $15,000 of a marginable security, you could pay $7,500 and borrow the remaining $7,500 from Merrill. You will be charged margin interest on the amount you borrow.

After the initial requirements have been met, certain minimum maintenance equity requirements apply to margin accounts. Merrill generally applies a maintenance requirement equal to 30% of the current market value, in the case of fully marginable equity securities.

Margin maintenance requirements may be changed at will by Merrill. Merrill is not required to contact you if maintenance requirements are changed. Merrill will attempt to contact you on a best efforts basis should maintenance requirements be altered within your account(s).

Please note that margin requirements are based on the market value of a security. Should market movement adversely impact the value of your holdings, your margin equity could fall below the margin requirements in your account, which would lead to a margin maintenance call. Securities that fall below certain dollar thresholds are subject to higher maintenance margin requirements. **(See Stock/ETF Margin Requirements on page 32.)**

If the value of positions purchased on margin decreases and the equity of your account falls below certain minimum maintenance thresholds, you will be required to meet a margin call by either selling securities in your account or depositing cash or additional marginable securities.

Cash vs. Margin Accounts

Both cash and margin accounts allow you to purchase securities, but they differ in how you can pay for securities and the types of trades allowed. Cash accounts require that purchases are paid in full, while margin accounts may allow you to borrow a portion of the total purchase cost.

Cash Account

- All trades in a cash account are required to be paid in full by the settlement date.
- If full payment is not made by due date, Merrill is required to liquidate (sell) the security and your account may be subject to a trading violation and restriction. Please see Trading Violations for more information.
- Money market mutual funds held in the account will redeem on settlement date.
- Freeriding is not permitted. You can learn more about freerides and other trading violations by visiting the Trading Violations.
- Sales in a cash account should not take place unless the security is paid in full.
- Short sales and extended settlements are not permitted.
- Withdrawals are limited to the amount of settled cash held in the account.

Margin Account

- A margin account is a loan account where you can leverage your eligible investments.
- Trades in a margin account may be paid in full by the settlement date, or an extension of credit by Merrill may be used to cover trade requirements, as long as sufficient margin equity is available in your account.
- In the event your account incurs a maintenance call and holds a money market mutual fund, Merrill will attempt to redeem shares from any money market fund held in your account to cover the incremental call on the due date (origin date + 1). This is done as a courtesy and should not contravene you from taking action to resolve the call yourself.
- The extension of credit through the Margin Lending Program permits you to make partial payment toward your opening trade and borrow the remainder from Merrill.
- Market fluctuations may create situations where you are required to bring in additional funds or marginable securities to cover a margin call.
- If required payment is not made by due date, Merrill must liquidate (sell) securities and your account may be subject to a trading violation and restriction. Please visit the Trading Violations for information on this subject.
- Short sales, extended settlement trades and other trades that require margin are permitted.
- Withdrawals taken in excess of your settled cash may incur interest charges.

Advantages and Risks of Using Margin

Advantage: A margin account can potentially increase your profits by leveraging your marginable securities. To learn more about margin visit this link.

Example of a profitable trade in a cash and margin account:

Let's assume that you wish to invest $5,000 in ABC Corporation, which is currently trading at $50 per share.

In a Cash Account

- Buy 100 shares of ABC @ $50 for $5,000
- Minimum deposit: $5,000

In a Margin Account

- Buy 200 shares of ABC @ $50 for $10,000
- Minimum deposit: $5,000
- Borrow from Merrill: $5,000

Now let's assume the price of ABC Corporation rises by 20% to $60 per share.

In a Cash Account

- Your investment of 100 shares of ABC is worth $6,000
- Profit: $1,000 *less any commissions*

– $5,000	Debit	Purchase Costs
+ $6,000	Credit	Sale Proceeds
$1,000	**Profit**	

In a Margin Account

- Your investment of 200 shares of ABC is worth $12,000
- Profit: $2,000 *less any commissions and interest*

– $10,000	Debit	Purchase Costs
+ $12,000	Credit	Sale Proceeds
$2,000	**Profit**	

Advantages and Risks of Using Margin (continued)

Risk: Potential losses are significantly greater due to leverage if there is adverse market movement.

Example of potential losses in declining markets:

Let's assume that you wish to invest $5,000 in ABC Corporation, which is currently trading at $50 per share.

In a Cash Account

- Buy 100 shares of ABC @ $50 for $5,000
- Minimum deposit: $5,000

In a Margin Account

- Buy 200 shares of ABC @ $50 for $10,000
- Minimum deposit: $5,000
- Borrow from Merrill: $5,000

Now let's assume the price of ABC Corporation falls by 20% the following business day to $40 per share.

In a Cash Account

- Your investment of 100 shares of ABC is worth $4,000
- Loss: $1,000 *less any commissions*

– $5,000	Debit	Purchase Costs
+ $4,000	Credit	Sale Proceeds
$1,000	**Loss**	

In a Margin Account

- Your investment of 200 shares of ABC is worth $8,000
- Loss: $2,000 *less any commissions and interest*

– $10,000	Debit	Purchase Costs
+ $8,000	Credit	Sale Proceeds
$2,000	**Loss**	

Short Selling

Short selling is the practice of borrowing a security and selling in anticipation that its market value will decline. You are only permitted to short sell in a margin account. Merrill must locate shares to borrow in order to facilitate short selling, and in some cases an order cannot be accepted because shares in a particular company may not be available to borrow.

Advantage: You can realize a profit if the security sold decreases in value and you buy it back at a lower price.

Example of a profitable short sale in a margin account:

Let's assume that you think the price of ABC Corporation will fall, and it is currently trading at $50 per share.

Day 1

Sell short 100 shares of ABC @ $50 for $5,000

The following business day the price of ABC Corporation falls by 20% to $40 per share.

Day 2

- Buy 100 shares of ABC @ $40 for $4,000 to cover the short position
- Profit: $1,000 *less any commissions and interest*

$5,000	Credit	Short Sale Proceeds
– $4,000	Debit	Buy to Cover Costs
$1,000	Profit	

Short Selling (continued)

Risk: Potential loss on a short sale is unlimited because there is no upward limit on the price of stock.

Example of potential losses in rising markets:

Let's assume that you think the price of ABC Corporation will fall and it is currently trading at $50 per share.

Day 1

Sell short 100 shares of ABC @ $50 for $5,000

After you short the stock, the price of ABC Corporation rises to $70 per share the next business day.

Day 2

- Buy 100 shares of ABC @ $70 for $7,000 to cover the short position
- Loss: $2,000 *less any commissions and interest*

$5,000	Credit	Short Sale Proceeds
– $7,000	Debit	Buy to Cover Costs
$2,000	**Loss**	

There are market and structural risks related to short selling. Market Risk includes the theoretical unlimited losses associated with a securities appreciation along with the possible loss of capital far in excess of the original capital placed at risk. Structural Risks would include recalls and buy-ins.

A recall may occur when:

- A shareholder elects to liquidate their loaned position
- A shareholder wants to vote their proxy
- Price declines force a sale
- The security is removed from an index

A buy-in may occur when:

- Replacement shares cannot be located
- Lender of shares buys them in the open market
- Short seller is assigned a gain or loss

Risk: Because selling a security short requires you to borrow the security, it may become in demand, due to market conditions, and you may be required to cover the short position.

You may also be subject to stock borrow charges when borrowing securities in connection with short sales.

Important Notice Regarding Short Selling Securities

Merrill lends stock to customers who engage in short sales, using the firm's own inventory, the margin account of another of the firm's customers, or another lender. As with buying stock on margin, short sellers are subject to margin rules and other fees and charges may apply. Merrill may charge stock borrow charges assessed in connection with such short sales on a daily basis starting on the settlement date of the trade. The charges may reflect work done by Merrill on your behalf in connection with these transactions to establish and maintain a short position in your account, which may result in a profit to Merrill. Short stock positions opened and closed intraday (not held overnight) will not be subject to stock borrow charges.

Please note: Merrill cannot guarantee that we will be able to continue to lend the securities that were sold short for more than the day on which the short sale is made. If Merrill cannot continue to lend the securities to you, we must require that you cover the short sale. This may occur at an inopportune time, requiring you to buy shares at an unfavorable price and creating a loss.

If the issuer of the securities that are sold short declares a dividend, issues warrants or rights, or engages in a merger or other transaction that results in the issuer's shareholders receiving cash or other securities, your account as the short seller will be charged accordingly. You will be required to repay all cash and to return all securities so distributed.

Are there costs to short sell securities?

If you short a stock that is in limited supply (i.e., "in demand"), you may be charged a premium (a "Stock Borrow" or "SB" charge) for borrowing that security. Whether there is an SB charge for a particular security and the relevant rate for the SB charge, depend on various factors, including, but not limited to, the availability of that stock based on supply and demand in the lending market at that time, the size of the transaction, rates charged by counterparty lenders, days to cover/short-interest ratio of the stock, the percentage of the issuer's float that is held short and the number of days that the position is held short (i.e., borrowed). Securities that are "in demand," and any corresponding SB charges, are determined by market participants and may fluctuate on a daily basis.

What is a stock borrow charge?

A stock borrow (SB) charge is a fee assessed to a client that has borrowed shares to sell short. Stock borrow charges are assessed when demand exceeds the supply of available shares to borrow to short. For example, an entity long shares of an in-demand security may be willing to lend a broker/bank/financial institution their shares for a fee, which in turn leads to those short shares being assessed the stock borrow charge. These fees may be assessed when you open a short position that is in demand and/or may be assessed if a position you are short becomes in demand while you are short shares.

How is the stock borrow charge assessed?

Stock borrow charges are calculated on an annualized basis based on the value of a short position and the SB rate for that position. SB charges for a particular position are charged daily on a pro-rated basis depending on how many calendar days you hold the position short.

An example of how an SB Charge is assessed is provided below. Please note that the example is for illustrative purposes only and does not reflect the actual SB Charges that you may incur on any given short position, which may be significantly higher than the charges reflected in the example. You may also be charged commissions and incur other expenses in connection with a short sale of securities that are not captured in the following example. The SB Charge amount for a given day is determined by multiplying the trade value of the stock borrowed by the applicable SB Charge rate, divided by 360. Therefore, the effective SB Charge rate for a given day can be obtained by multiplying the SB Charge amount by the number of days in a given year (e.g., 365 days) and dividing by the trade value of the stock borrowed.

Example:
Current Price of Stock = $11
Number of Shares Sold Short = 10,000
SB Charge Rate = 20%

(Market Price of Stock) x (Share Quantity) = Trade Value of Stock Borrowed

$11 (Market Price of Stock) x 10,000 (Share Quantity) = $110,000 (Trade Value of Stock Borrowed)

(Trade Value of Stock Borrowed) x (SB Charge Rate) = Annual SB Charge Amount

$110,000 (Trade Value of Stock Borrowed) x .20 (SB Charge Rate) = $22,000 (Annual SB Charge Amount)

(Annual SB Charge) / (360 Days) = Daily SB Charge Amount

$22,000 (Annual SB Charge) / 360 (Days) = $61.11 (Daily SB Charge Amount)

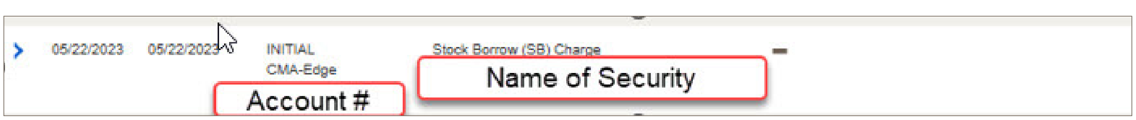
(Daily SB Charge Amount) x (365 Days) / (Trade Value of Stock Borrowed) = Effective SB Charge Rate

$61.11 (Daily SB Charge) x 365 (Days) / $110,000 (Trade Value of Stock Borrowed) = 20.28% (Effective SB Charge Rate)

If a client is assessed Stock Borrow charges, where will you see the charges?

All applicable SB charges assessed will be displayed under an "SB CHARGE" debit entry on your monthly account statement. This entry will show, on an aggregated basis, the charges for all shorted securities that incurred an SB charge during the applicable period, as well as a detailed breakdown of each SB charge, including the applicable borrowing rate for each position for the applicable period. In addition, you will be able to see the daily and monthly aggregate charges if you review your account statements online.

Example of how the SB fee appears in activity:



Securities Eligible for Leverage When Held in a Margin Account at Merrill Edge

Equities: Stocks or other securities representing an ownership interest that meet certain eligibility criteria (including price per share, exchange and market capitalization requirements).

Exchange-Traded Funds (ETFs): Investments that are built like mutual funds but trade like individual stocks, with the objective of achieving the same return as a particular market index.

U.S. Government Securities:

- **Treasury Bills:** Short-term debt obligations backed by the U.S. government with a maturity of less than one year. T-bills commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).
- **Treasury Notes:** Marketable U.S. government debt securities with a fixed interest rate and a maturity between one and 10 years.
- **Treasury Bonds:** Marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income that holders receive is only taxed at the federal level.

Corporate Bonds: Debt securities issued by corporations and sold to investors. The backing for a bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for top-flight credit-quality companies.

Convertible securities: Securities — usually bonds or preferred stock — that can be converted into a different security, typically shares of the company's common stock. Please note that while convertible securities may be held at Merrill Edge, they are generally not available for opening purchases on our digital platforms..

Options: All option contracts are ineligible for leverage with the exception of LEAP contracts with more than 9 months to expiration.

Municipal Bonds: Municipal bonds, often referred to as "munis," are debt securities issued by states, cities, counties and other governmental entities. Must be investment grade, which means they are receiving a rating by Standard & Poor's of BBB– or better or a rating from Moody's Investors Services of Baa3 or better.

Open-end Mutual Funds: Must initially be paid for in full in accordance with federal securities regulations. **Note:** Merrill will extend margin loan value on certain open-ended mutual funds 30 days after settlement date of the purchase.

Securities Ineligible for Leverage When Held in a Margin Account at Merrill Edge:

Certain security types are not margin-eligible, including the following:

- Certificates of deposit
- Initial Public Offerings post share issuance for 30 calendar days
- MLPDA (Merrill Lynch Preferred Deposit Account)
- Secondary offerings underwritten by Bank of America
- Options (except for LEAPS with more than 9 months to expiration)
- Non-investment grade bonds

The list is not all inclusive and is subject to change.

Accounts Not Eligible for Margin at Merrill:

The following ownership and account features are "ineligible" for margin trading:

- All retirement accounts: IRA (Individual Retirement Account), IRRA (Individual Retirement Rollover Account), SEP (Simplified Employee Pension), SIMPLE (Savings Incentive Plan for Employees), BASIC (Small Business Retirement Account), RCMA (Retirement CMA)
- 529 accounts-College Investing Account
- Loan Management Account (LMA)
- Custodial (UTMA/UGMA) accounts
- Estate/Conservatorship/Guardianship accounts
- Pledge Collateral accounts

Equity Margin Values

Long Market Value (LMV)

Long Market Value (LMV) is the combined total value of all leveragable positions held in your account multiplied by the current market price(s).

How to Calculate Long Market Value

- LMV = Number of Shares Held Long x Current Market Price
- If you are long 100 shares of ABC Corporation and its current market prices is $40 per share, you would calculate the Long Market Value as follows:

100 (Number of Shares Held Long) x $40 (Current Market Price) = $4,000 (Long Market Value)

Short Market Value (SMV)

Short Market Value (SMV) is the combined total value of all short positions in your account multiplied by the current market price(s).

How to Calculate Short Market Value

- SMV = Number of Shares Short x Current Market Price
- If you are short 500 shares of ABC Corporation and its current market price is $35 per share, you would calculate the Short Market Value as follows:

500 (Number of Shares Short) x $35 (Current Market Price) = $17,500 (Short Market Value)

Debit Balance (DR)

Debit Balance (DR) is the amount of funds that you owe for trades placed on margin and for any withdrawals where you borrow from the marginable securities in your account.

How to Calculate Your Debit Balance

- **Example 1**: Let's assume that your margin account has $2,000 in cash and you purchase 100 shares of ABC Corporation at $32.50 per share. You would calculate your debit balance as follows:
- Debit Balance (DR) = Cost of Purchase-Cash Balance

$2,000	Cash Balance	*100 (Number of Shares) x $32.50 (Price of Security)*
– $3,250	Cost of Purchase	
$1,250	**Debit Balance (DR)**	

- **Example 2**: Let's assume that your margin account has $10,000 in marginable securities, no cash balance and you withdraw $5,000 from your account. You would calculate your debit balance as follows:
- Debit Balance (DR) = Withdrawal Amount-Cash Balance

$5,000	Withdrawal (***Note:*** *withdrawals from your margin account cannot exceed certain amounts)*
– $0	Cash Balance *(based on the available loan value and margin requirements of the securities held*
$5,000	**Debit Balance (DR)**

Equity Margin Values (continued)

Credit Balance (CR)

Credit Balance (CR) is the amount of money held in your margin account after all trading commitments and other financial obligations have been paid in full.

How to Calculate Your Credit Balance

- **Example 1**: Let's assume that your margin account has no cash balance and you sell 100 shares of ABC, which is fully marginable, that you held long at $20 per share. You would calculate your credit balance as follows:
- Credit Balance (CR) = Proceeds from Sale + Cash Balance

$2,000	Proceeds from Sale	*100 (Number of Shares) x $20 (Price of Security)*
+ $0	Cost of Purchase	
$2,000	**Credit Balance (CR)**	

- **Example 2**: Let's assume that your margin account has $10,000 in fully marginable securities, no cash balance and you sell short 100 shares of XYZ at $40 per share. You would calculate your credit balance as follows:
- Credit Balance (CR) = Proceeds from Sale + Cash Balance

$4,000	Proceeds from Sale	
+ $0	Cost of Purchase	
$4,000	**Credit Balance (CR)**	
		100 (Number of Shares) x $0 (Price of Security)

Margin Equity (EQ)

Margin Equity (EQ) is the net value of your portfolio in a margin account. There are three possible ways equity can be calculated. The calculations are dependent on the holdings in your margin account.

How to Calculate Margin Equity

- (Long positions only): Long market value – debit balance = margin equity
- **Example:** Let's assume that your portfolio contains the following security positions and balances:
  - 100 shares of ABC Corporation with Current Market Price of $50 per share
  - 200 shares of XYZ Corporation with Current Market Price of $20 per share
  - Debit Balance of $2,000

$5,000	Long Market Value (LMV)	*100 (Number of Shares) x $50 (Price of Security)*
+ $4,000	Long Market Value (LMV)	*200 (Number of Shares) x $20 (Price of Security)*
– $2,000	Debit Balance (DR)	
$7,000	**Margin Equity (EQ)**	

Equity Margin Values (continued)

- (Short positions only): Credit balance – Short market value = margin equity
- **Example:** Let's assume that your portfolio contains the following security positions and balances:
  - 500 shares of ABC Corporation held short with Current Market Price of $10 per share
  - 100 shares of XYZ Corporation held short with Current Market Price of $15 per share
  - Credit Balance of $10,000

$10,000	Credit Balance (CR)	
– $5,000	Short Market Value (SMV)	*500 (Number of Shares) x $10 (Price of Security)*
– $1,500	Short Market Value (SMV)	*100 (Number of Shares) x $15 (Price of Security)*
$3,500	**Margin Equity (EQ)**	

- (Long/Short Account) Margin Equity (EQ) = Long Market Value (LMV) – Short Market Value (SMV) + Credit Balance (CR) – Debit Balance (DR)
- **Example:** Let's assume that your portfolio contains the following security positions and balances:
  - 100 shares of ABC Corporation with Current Market Price of $26 per share
  - 25 shares of XYZ Corporation held short with Current Market Price of $15 per share
  - Credit Balance of $5,000
  - Debit Balance of $2,000

$2,600	Long Market Value (LMV)	*100 (Number of Shares) x $26 (Price of Security)*
– $375	Short Market Value (SMV)	*25 (Number of Shares) x $15 (Price of Security)*
+ $5,000	Credit Balance (CR)	
– $2,000	Debit Balance (DR)	
$5,225	**Margin Equity (EQ)**	

Equity Margin Values (continued)

Regulation T (Reg T)

Regulation T (Reg T) is a federal regulation issued by the Federal Reserve Board of Governors that regulates broker-dealers and the extension of credit in the securities market. According to Reg T, a certain percentage of margin must be deposited into your account when making any new trade commitments on credit. This is also referred to as the initial requirement. The initial requirement varies based on different types of securities (see Reg T Requirements). Currently, the Reg T requirement for equity securities is 50% of the total cost.

Initial Requirements

Municipal and government fixed income securities do not have a Regulation T requirement, due to their classification as exempt securities. Merrill assesses an initial requirement to open positions on those securities similar to Reg T and those requirements are included in this section.

Reg T or Initial Requirements

Security Type	Reg-T or Initial Requirement
Long Equity/Stock	50%
Short Equity/Stock	50%
New Equity Issues on Underwriting	100%*
When Issues on Margin	50%
Mutual Funds	50%
Mutual Funds on Underwriting	100%*
Unit Investment Trusts	50%
Open End Investment Companies	100%*
Foreign Bonds	30%
Corporate Bonds & Nonconvertible Bonds	30%
Convertible Bonds	50%
Municipal Bonds	20%
U.S. Treasury Bill	5%
U.S. Treasury Note	5%
U.S. Treasury Bond	8%
U.S. Treasury Strip	8%
FHLB, FNMA, FLB, FIC Notes, GNMA, Category C Bonds	10%
TVA, REFCOR, FHLMC, SBA, GNMA and FNMA Pools, SLMA, NPC, Category D Bonds	15%
Securities at 3% of Face Value (FV)	3%
Securities at 7% of Face Value (FV)	7%

***** On Underwriting for 30 days from settlement date (excluding IPOs and Secondary Offerings).

Note: This list is not all inclusive, is subject to change, and fixed income instruments cited in this table may not be available for opening transactions on the Merrill Edge platform.

Equity Margin Values (continued)

Reg T Call (TCL)

A Reg T call (TCL) is the need for additional equity (funds or securities) in your account to eliminate or reduce a margin deficiency. You must cover a TCL by the displayed due date.

Example of a Reg T call:

Let's assume that the opening trade of your new margin account is a purchase of 1,000 shares of ABC stock at $60 for $60,000. Let's also assume that there is only $20,000 cash in the account at the time of the trade.

Reg T Requirement = Purchase Cost x 50%
Reg T Requirement = $60,000 x 50%
Reg T Requirement = $30,000

TCL = Reg T Requirement – Equity ($30,000–$20,000)
TCL = $10,000

Note: Your "Balances" Screen will inform you of the status of all Funds Due in your account, such as Reg T calls.

Special Memorandum Account (SMA)

A Special Memorandum Account (SMA) is a line of credit. According to Regulation T, SMA is used to record the excess margin in your account. It is sometimes referred to as "margin excess." This "margin excess" should not be confused with Firm Maintenance Excess (described later). Activities that increase SMA may include market value appreciation, closing trades and deposits of cash/margin-eligible securities. Activities that reduce SMA include opening trades and withdraws of cash/margin-eligible securities; SMA is never debited for adverse market movement in your account.

An example of SMA:

Let's assume you deposited 1,000 shares of XYZ at $20 in a new account. The Reg T requirement is $10,000 (50% of the LMV) and there is equity of $20,000.

SMA = EQ – Reg T Requirement
SMA = $20,000 – $10,000
SMA = $10,000

Firm Maintenance Excess (FME)

Firm Maintenance Excess (FME) occurs when the equity in your margin account exceeds the Maintenance Requirement.

Example of FME:

Assume your account status is as follows:

- LMV = $20,000
- Debit Balance = $12,000

Equity = LMV – DR ($20,000 – $12,000)
Equity = $8,000
Maintenance Requirement = LMV × 30% ($20,000 × 30%)
Maintenance Requirement = $6,000
FME = Equity – Maintenance Requirement ($8,000 – $6,000)
FME = $2,000

Buying Power

Buying Power represents the dollar amount of marginable equity securities priced above $10.00 per share that the client could buy without going into a Regulation T Call or a Maintenance Call (if nothing else changes in the account).

Example of Buying Power:

Let's assume your SMA and FME values from the examples noted above:

Buying Power = The lower of SMA divided by .5 or FME divided by .3
SMA = $10,000
FME = $2,000
BP = The lower of ($10,000/.5 = $20,000)
or ($2,000/.3 = $6,666.67)

In this example, the Buying Power would be $6,666.67.

Initial Minimum Equity Requirement

$2,000 minimum equity is required by FINRA for margin accounts. If you have insufficient equity, a minimum equity call will be issued.

No opening trades will be permitted until you deposit cash or marginable securities to bring your margin equity to $2,000. Should you open a position without $2,000 in margin equity, a minimum equity call will be issued.

Note: Minimum Equity Requirements vary based on investments. Some investment strategies require maintaining a higher equity level.

Option minimum equity requirements

Your option equity must be at a level that meets or exceeds requirements based on certain option strategies in your account. This list is not all inclusive and is subject to change. The minimum option equity requirements per strategy follow:

- Covered call writing in a margin account: The minimum option equity requirement is $2,000 plus 20% of your option short market value.
- European horizontal and diagonal spreads: These strategies require $10,000 plus 100% of the in-the-money amount of the short option less the premium on the long option for European horizontal and diagonal spreads.
- Writing uncovered broad-based index options: The writing of uncovered broad-based index options requires $50,000 minimum option equity.
- The writing of narrow-based index options requires an initial base equity of $10,000.
- Spread option positions: $10,000 minimum option equity is required for option accounts that maintain spread option positions.
- Pattern day traders: The minimum option equity requirement is $25,000.
- Writing uncovered equity options requires account level equity of $10,000.00 and $200,000 in household level equity.

Option Requirements: Cash Accounts

Options Level	Strategy Name	Strategy Description	Buying Power Requirements	Strategy Requirements
1	Covered Call	Short one call option against 100 shares held long	None	The underlying instrument must be long 100 shares in the account.
1	Buy Write	Purchase 100 shares and short one call option at the same time	Cost to purchase the shares less the credit received from selling the call	The trade must be entered on a Buy Write trade ticket.
2	Long Put	Long one put option	Cost to purchase the put	None
2	Collar	Short one call option and long one put option against 100 shares held long	Cost to purchase the shares and the put, less the credit received from selling the call; this strategy may result in a debit, credit, or even cost (no cost)	• The underlying instrument must be long 100 shares in the account. • Both the call and the put must have the same underlying position and expiration date, but the put must have a lower strike price than the call. • The shares, call, and put cannot be traded on a multi-leg trade ticket in a cash account. They must be traded separately.
3	Long Call	Long a call option	Cost to purchase the call	None
3	Protective Put	Long 100 shares and long one put option	Cost to purchase the shares and the put	• The underlying instrument must be long 100 shares in the account. • The shares and put cannot be traded on a multi-leg trade ticket in a cash account. They must be traded separately.
3	Cash Covered Put	Short one put option	Strike price of the put × 100 shares × number of contracts = cash covered put reserve requirement	The account must have cash or a cash equivalent position to cover the put reserve requirement.
3	Long Strangle	Long one call option and long one put option	Cost to purchase the call and put	• Both the call and put must have the same underlying and expiration date, but have different strike prices. • The call strike must be higher than the put strike.
3	Long Straddle	Long one call option and long one put option	Cost to purchase the call and put	Both the call and put must have the same underlying, expiration date, and strike price.

Option Requirements: Margin Accounts

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
1	Covered Call	Short one call option against 100 shares held long	No initial requirement	Standard margin requirements on the long shares with a maximum margin requirement, not to exceed the call strike price	• $2,000 in margin equity + 20% of the short market value of the option • The underlying instrument must be long 100 shares in the account
1	Buy Write	Purchase 100 shares and short one call option at the same time	50% of the long market value of the shares	Standard margin requirements on the long shares with a maximum margin requirement, not to exceed the call strike price	• $2,000 in margin equity + 20% of the short market value of the option • The trade(s) must be entered on a Buy Write trade ticket
2	Hedged Call	Long one call option and short 100 shares of the same underlying instrument	The cost of the long call and standard margin requirements on the short shares	• In the money maintenance buying power requirement: 10% of the call exercise value or 30% of the short market value, whichever is lower • Out of the money buying power maintenance requirement: 10% of the call exercise value + 100% of the out of the money value or 30% of the short market value, whichever is lower	• $2,000 in margin equity and availability of short shares • The long call and short shares cannot be traded on a multi-leg trade ticket. They must be traded separately.
2	Covered Put	Short 100 shares and short one put option	Standard margin requirements on the short shares and no requirement on the short put	• In the money maintenance buying power requirement: Standard margin requirements on the short shares and 100% of the in the money amount on the put option • Out of the money buying power maintenance requirement: Standard margin requirements on the short shares and no requirement on the put option	• $2,000 in margin equity and availability of short shares • The short put and short shares cannot be traded on a multi-leg trade ticket. They must be traded separately.
3	Protective Put	Long 100 shares and long one put option	The cost of the long put and 50% of the market value on the long shares	• In the money maintenance buying power requirement: 10% of the put exercise value not to exceed 30% of the underlying instruments long market value • Out of the money buying power maintenance requirement: 10% of the put exercise value plus 100% of the out-of-the-money amount not to exceed 30% of the underlying instruments long market value	• $2,000 in margin equity • The long shares and long put cannot be traded on a multi-leg trade ticket. They must be traded separately.
3	Cash Covered Put	Short one put option	100% of the assignment value	Same as initial buying power requirement	• $2,000 in margin equity • The account must have cash, a cash equivalent position, or sufficient non-marginable buying power available to cover the put reserve requirement.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
3	LEAPS	Long one call or put option that has more than 9 months to expiration remaining	75% of the cost to purchase the option	• 75% of the long market value of the option. The value is marked to market based on the prior close of business price. • **Note:** Once the option has less than nine months to expiration, the option will have a 100% margin requirement	• $2,000 in margin equity
4	Bull Call Spread	Long one call option with a lower strike price and short one call option with a higher strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • Both calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Bull Put Spread	Short one put option with a higher strike price and long one put option with a lower strike price	The buying power requirement is the difference between the strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • Both puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Bear Call Spread	Short one call option with a lower strike price and long one call option with a higher strike price	The buying power requirement is the difference between the strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • Both calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Bear Put Spread	Long one put option with a higher strike price and short one put option with a lower strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • Both puts have the same underlying security, expiration date and contract amount(s). • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Call Butterfly Spread	Long one call option with a lower strike price and short two call options with a higher strike price and long one call option with an even higher strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
4	Short Call Butterfly Spread	Short one call option with a lower strike price and long two call options with a higher strike price and short one call option with an even higher strike price	The buying power requirement is the difference between the two lowest strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Put Butterfly Spread	Long one put option with a higher strike price and short two put options with a lower strike price and long one put option with an even lower strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Short Put Butterfly Spread	Short one put option with a higher strike price and long two put options with a lower strike price and short one put option with an even lower strike price	The buying power requirement is the difference between the two highest strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Iron Butterfly Spread	Long one bear put spread and long one bull call spread	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls and puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Short Iron Butterfly Spread	Short one bull put spread and short one bear call spread	The buying power requirement is the difference between the strikes × number of contracts × 100 Only one credit spread requirement is charged	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls and puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Call Condor Spread	Long one bull call spread and short one bear call spread	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
4	Short Call Condor Spread	Short one bear call spread and long one bull call spread	The buying power requirement is the difference between the two lowest strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Put Condor Spread	Long one bear put spread and short one bull put spread	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Short Put Condor Spread	Short one bull put spread and long one bear put spread	The buying power requirement is the difference between the two highest strikes × number of contracts × 100	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Iron Condor Spread	Long one bull call spread and long one bear put spread	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls and puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Short Iron Condor Spread	Short one bear call spread and short one bull put spread	The buying power requirement is the difference between either the two highest or lowest strikes × number of contracts × 100 Only one credit spread requirement is charged	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls and puts have the same underlying security, expiration date and contract amount. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
4	Long Call Calendar Spread	Long one call option with a longer dated expiration and short one call option with a nearer dated expiration; the options share the same strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All calls have the same underlying security. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
4	Long Put Calendar Spread	Long one put option with a longer dated expiration and short one put option with a nearer dated expiration; the options share the same strike price	The buying power requirement is the net debit	Same as initial buying power requirement	• $10,000 in account level equity is required to trade spreads. • All puts have the same underlying security. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Short Put Calendar Spread	Short one put option with a longer dated expiration and long a put option with a nearer dated expiration; the options share the same strike price	The naked put requirement will be applied	Same as initial buying power requirement	• Merrill does not recognize short calendar spreads for pairing purposes. • The naked put requirement will be assessed on the short leg. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level. • $200,000 in household level equity is required to trade naked options.
5	Short Call Calendar Spread	Short one call option with a longer dated expiration and long a call option with a nearer dated expiration; the options share the same strike price	The naked call requirement will be applied	Same as initial buying power requirement	• Merrill does not recognize short calendar spreads for pairing purposes. • The naked call requirement will be assessed. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level. • $200,000 in household level equity is required to trade naked options.
5	Short Strangle (equities or narrow-based indices)	Short one call option with a higher strike price and short one put option with a lower strike price	The naked call or naked put requirement will be applied, whichever has a greater requirement	The naked call or naked put requirement will be applied, whichever has a greater requirement	• $200,000 in household level equity is required to trade naked options. • $10,000 in account level equity is also required. • Both the call and put must have the same underlying, but have different strike prices and the expirations are not required to be the same. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Short Strangle (broad-based indices)	Short one call option with a higher strike price and short one put option with a lower strike price	The naked call or naked put requirement will be applied, whichever has a greater requirement	The naked call or naked put requirement will be applied, whichever has a greater requirement	• $200,000 in household level equity is required to trade naked options. • $50,000 in account level equity is also required. • Both the call and put must have the same underlying, but have different strike prices and the expirations are not required to be the same. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
5	Short Straddle (equities or narrow-based indices)	Short one call option and short one put option with the same strike price	The naked call or naked put requirement will be applied, whichever has a greater requirement	The naked call or naked put requirement will be applied, whichever has a greater requirement	• $200,000 in household level equity is required to trade naked options. • $10,000 in account level equity is also required. • Both the call and put must have the same underlying and the same strike prices, but the expirations are not required to be the same. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Short Straddle (broad-based indices)	Short one call option and short one put option with the same strike price	The naked call or naked put requirement will be applied, whichever has a greater requirement	The naked call or naked put requirement will be applied, whichever has a greater requirement	• $200,000 in household level equity is required to trade naked options. • $50,000 in account level equity is also required. • Both the call and put must have the same underlying and the same strike prices, but the expirations are not required to be the same. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Naked Call (equities or narrow-based indices)	Short one call option	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	• $200,000 in household level equity is required to trade naked options. • $10,000 in account level equity is also required. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Naked Call (broad-based indices)	Short one call option	Whichever is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	Whichever is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	• $200,000 in household level equity is required to trade naked options. • $50,000 in account level equity is also required. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Margin Accounts (continued)

Options Level	Strategy Name	Strategy Description	Position Initial (Reg T) Requirement	Maintenance Requirements	Strategy Requirements
5	Naked Put (equities or narrow-based indices)	Short one put option	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	• $200,000 in household level equity is required to trade naked options. • $10,000 in account level equity is also required. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Naked Put (broad-based indices)	Short one put option	Whichever requirement is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	Whichever requirement is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received • 10% of the underlying market value + the premium received	• $200,000 in household level equity is required to trade naked options. • $50,000 in account level equity is also required. • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.
5	Collar	Long one put option with a lower strike price and short one call option with a higher strike price	Whichever requirement is lower: • 10% of the put exercise value + any out of the money amount • 30% of the call exercise value	Whichever requirement is lower: • 10% of the put exercise value + any out of the money amount • 30% of the call exercise value	• The underlying instrument must be long 100 shares in the account. • The call and put may be traded together on a combination trade ticket or traded individually. • The options and underlying instrument cannot be traded on a multi-leg trade ticket • $2,000 in margin equity • Options strategies requiring level 4 and/or 5 approval have maintenance requirements that are evaluated at account level. This is done in attempt to allocate the lowest possible maintenance requirement to your account and stay within your approved options level.

Option Requirements: Day Trades

Options Level	Strategy Name	Strategy Description	Day Trade Requirement
1	Covered Call	Short one call option	• The naked call requirement is assessed.
1	Buy Write	Long 100 shares and short one call option	• The naked call requirement is assessed. • The margin requirement of the long shares is assessed.
2	Covered Put	Short 100 shares and short one put option	• The naked call requirement is assessed. • The margin requirement of the short shares is assessed.
2	Cash Covered Put	Short one put option	• The naked put requirement is assessed.
2	Hedged Call	Long one call and short 100 shares of the same underlying position	• The cost of the long call is assessed. • The margin requirement of the short shares is assessed.
3	Protective Put	Long 100 shares and long one put option	• The cost of the long put is assessed. • The margin requirement of the long shares is assessed.
3	LEAPS	Long one call or put option that has more than nine months to expiration remaining	• The cost of the long call is assessed, or • The cost of the long put is assessed.
4	Bull Call Spread	Long one call option with a lower strike price and one short call option with a higher strike price	• The cost of the long call is assessed. • The naked requirement for the short call is assessed.
4	Bull Put Spread	Short one put option with a higher strike price and long one put option with a lower strike price	• The cost of the long put is assessed. • The naked requirement for the short put is assessed.
4	Bear Call Spread	Short one call option with a lower strike price and long one call option with a higher strike price	• The cost of the long call is assessed. • The naked call requirement for the short call is assessed.
4	Bear Put Spread	Long one put option with a higher strike price and short one put option with a lower strike price	• The cost of the long put is assessed. • The naked requirement for the short put is assessed.
4	Long Call Butterfly Spread	Long one call option with a lower strike price and short two call options with a higher strike price and long one call option with an even higher strike price	• The cost of the long calls is assessed. • A naked requirement for the short calls is assessed.
4	Short Call Butterfly Spread	Short one call option with a lower strike price and long two call options with a higher strike price and short one call option with an even higher strike price	• The cost of the long calls is assessed. • A naked requirement for the short calls is assessed.
4	Long Put Butterfly Spread	Long one put option with a higher strike price and short two put options with a lower strike price and long one put option with an even lower strike price	• The cost of the long puts is assessed. • A naked requirement for the short puts is assessed.
4	Short Put Butterfly Spread	Short one put option with a higher strike price and long two put options with a lower strike price and short one put option with an even lower strike price	• The cost of the long puts is assessed. • A naked requirement for the short puts is assessed.
4	Long Iron Butterfly Spread	Long one bear put spread and long one bull call spread	• The cost of the long call and put are assessed. • The naked requirement for the short call and put is assessed.
4	Short Iron Butterfly Spread	Short one bull put spread and short one bear call spread	• The cost of the long call and put are assessed. • The naked requirement for the short call and put is assessed.
4	Long Call Condor Spread	Long one bull call spread and short one bear call spread	• The cost of the long calls is assessed. • The naked call requirement for the short calls is assessed.
4	Short Call Condor Spread	Short one bear call spread and long one bull call spread	• The cost of the long calls is assessed. • The naked call requirement for the short calls is assessed.
4	Long Put Condor Spread	Long one bear put spread and short one bull put spread	• The cost of the long puts is assessed. • A naked requirement for the short puts is assessed.
4	Short Put Condor Spread	Short one bull put spread and long one bear put spread	• The cost of the long puts is assessed. • A naked requirement for the short puts is assessed.
4	Long Iron Condor Spread	Long one bull call spread and long one bear put spread	• The cost of the long call and put are assessed. • The naked requirement for the short call and put is assessed.
4	Short Iron Condor Spread	Short one bear call spread and short one bull put spread	• The cost of the long call and put are assessed. • The naked requirement for the short call and put is assessed.
4	Long Call Calendar Spread	Long one call option with a longer dated expiration and short one call option with a nearer dated expiration; the options share the same strike price	• The cost of the long call is assessed. • The naked call requirement for the short call is assessed.

Option Requirements: Day Trades (continued)

Options Level	Strategy Name	Strategy Description	Day Trade Requirement
4	Long Put Calendar Spread	Long one put option with a longer dated expiration and short one put option with a nearer dated expiration; the options share the same strike price	• The cost of the long put is assessed. • The naked put requirement for the short put is assessed.
5	Short Put Calendar Spread	Short one put option with a longer dated expiration and long a put option with a nearer dated expiration; the options share the same strike price	• The cost of the long put is assessed. • The naked put requirement for the short put is assessed.
5	Short Call Calendar Spread	Short one call option with a longer dated expiration and long a call option with a nearer dated expiration; the options share the same strike price	• The cost of the long call is assessed. • The naked call requirement for the short call is assessed.
5	Short Strangle (equities or narrow-based indices)	Short one call option with a higher strike price and short one put option with a lower strike price	• The naked requirement for the short call and put are assessed.
5	Short Strangle (broad-based indices)	Short one call option with a higher strike price and short one put option with a lower strike price	• The naked requirement for the short call and put are assessed.
5	Short Straddle (equities or narrow-based indices)	Short one call option and short one put option with the same strike price	• The naked requirement for the short call and put are assessed.
5	Short Straddle (broad-based indices)	Short one call option and short one put option with the same strike price	• The naked requirement for the short call and put are assessed.
5	Naked Call (equities or narrow-based indices)	Short one call option	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received, or • 10% of the underlying market value + the premium received.
5	Naked Call (broad-based indices)	Short one call option	Whichever is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received, or • 10% of the underlying market value + the premium received.
5	Naked Put (equities or narrow-based indices)	Short one put option	Whichever is greater: • 20% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received, or • 10% of the underlying market value + the premium received.
5	Naked Put (broad-based indices)	Short one put option	Whichever is greater: • 15% of the underlying market value based on prior day's closing business price — any out of the money amount + the premium received, or • 10% of the underlying market value + the premium received.
5	Collar	Long 100 shares of the underlying instrument, long one put option with a lower strike price and short one call option with a higher strike price	• The cost to purchase the long put is assessed. • The naked requirement for the short call is assessed. • The margin requirement for the shares is assessed.

Stock/ETF Margin Requirements

Long Equity Positions:

Long Stock	Position Initial (Reg T) Requirement	Maintenance Requirement
$10.00 or over	50%	30%
$3.00 to $10.00	50%	$3.00/share
Under $3.00	50%	100% of LMV

Short Equity Positions:

Short Stock	Position Initial (Reg T) Requirement	Maintenance Requirement
$16.667 or over	50%	30%
$5.00 to $16.6666	50%	$5.00/share
$2.50 to $5.00	50%	$2.50/share or 100%, whichever is greater
Under $2.50	50%	$2.50/share

Concentrated Stock/ETF Requirements

Standard Concentration Requirements:

If your account holds a concentrated equity position, we may increase the margin requirements beyond the standard margin requirements. These concentration requirements can vary based on the level of concentration as well as potential risk factors such as liquidity, volatility, short float, etc.

Typically, these requirement increases occur systematically upfront at the point of trade. However, they may not always be charged up front. Any changes in the makeup of your portfolio due to market movement, trading, or other factors could cause your portfolio to become more or less concentrated in a single security.

- To reduce concentration requirements, consider diversifying your portfolio.
- Merrill may increase margin requirements at any time and is not required to provide you with advanced notice.
- Accounts with a multi-margin relationship may have additional requirements.

Day Trading Concentration Requirements:

Standard concentration requirements do not normally apply when day trading positions in a margin account. Higher margin requirements are assessed when 25,000 shares or more are day traded in a margin account.

Day Trading Requirements for Long Concentrated Positions

Number of Shares	Requirements
0 – 25,000	30% of the long market value, to a minimum of $3 per share
25,001 – 50,000	40% of the long market value, to a minimum of $3 per share
50,001 – 75,000	50% of the long market value, to a minimum of $3 per share
75,001 – 100,000	75% of the long market value, to a minimum of $3 per share
Over 100,000	100% of the long market value

Day Trading Requirements for Short Concentrated Positions

Number of Shares	Requirements
0 – 25,000	30% of the short market value, to a minimum of $5 per share
25,001 – 50,000	40% of the short market value, to a minimum of $5 per share
50,001 – 75,000	50% of the short market value, to a minimum of $5 per share
75,001 – 100,000	75% of the short market value, to a minimum of $5 per share
Over 100,000	100% of the short market value

Leveraged ETF Requirements:

Higher maintenance requirements apply on Leveraged ETFs. **Note:** 3X Leveraged ETFs are not marginable.

Day Trading Requirements for Long Leveraged ETF Concentrated Positions

Number of Shares	2x Leverage ETF Requirements
0 – 25,000	60% of the long market value, to a minimum of $3 per share
25,001 – 50,000	80% of the long market value, to a minimum of $3 per share
Above 50,000	100% of the long market value, to a minimum of $3 per share

Day Trading Requirements for Short Leveraged ETF Concentrated Positions

Number of Shares	2x Leverage ETF Requirements	3x Leverage ETF Requirements
0 – 25,000	60% of the short market value, to a minimum of $5 per share if priced over $5.00, or a minimum of 100% if priced from $2.50 to $5.00, or a minimum of $2.50 per share if priced under $2.50	90% of the short market value, to a minimum of $5 per share if priced over $5.00, or a minimum of 100% if priced from $2.50 to $5.00, or a minimum of $2.50 per share if priced under $2.50*
25,001 – 50,000	80% of the short market value, to a minimum of $5 per share if priced over $5.00, or a minimum of 100% if priced from $2.50 to $5.00, or a minimum of $2.50 per share if priced under $2.50	100% of the short market value, to a minimum of $2.50 per share if priced under $2.50
Above 50,000	100% of the short market value, to a minimum of $2.50 per share if priced under $2.50	100% of the short market value, to a minimum of $2.50 per share if priced under $2.50

*3x leveraged short ETFs currently have a 100% short market value requirement.

Fixed Income Margin Requirements

U.S. Government, Agency and Guaranteed Debt Securities:

Requirements differ by security category. Please review the lists below to determine which bonds fall into which category.

Category	Initial Requirement	Maintenance Requirement
Category 1	5%	5%
Category 2	8%	6%
Category 3	10%	6%
Category 4	15%	10%

Category 1
U.S. Treasury Bills and Notes

Category 2
U.S. Treasury Bonds and Strips

Category 3
Bank of Cooperatives

Export-Import Bank of U.S.

Farm Credit Bank-Con Sys Bonds

Farm Credit Bank-Discount Note

Federal Home Loan Bank

Fed Home Loan Bank Disc Note

Federal Intermediate Credit Bank

Federal Land Bank

Federal National Mortgage Association

Federal National Mortgage Association – Disc Note

FHLMC, FNMA and Participation Certificates

Government National Mortgage Association

Public Housing Authority

Public Housing Authority – Project Notes

Federal Home Loan

Category 4
Asian Development Bank

Farmers Home Administration

Federal Home Loan Mortgage Corp

Federal Home Loan Mortgage – Participation Note

Federal Housing Authority Debentures

General Services Administration

GNMA Modified Pass Thru Gov Trust Certs

Inter-American Development Bank

International Bank for Reconstruction and Develop (World Bank)

National Power Corp – Bonds

New Communities Acts Debentures

Private Export Funding Corp – Note

Resolution Funding

Small Business Administration

Student Loan Marketing Association

Tennessee Valley Authority

Title XI Ship Financing Bonds

U.S. Postal Service

Washington Metro Area Transit Authority

Federal Agric Mortgage Association

Margin Calls

Margin accounts are required to meet certain minimum initial and maintenance requirements. You must take action to meet margin calls in order to avoid mandatory action by the firm, which could include liquidation of positions to satisfy the margin call, violations related to the firm action and restriction of accounts due to violations.

Regulation T Call — Occurs when the margin requirement under Regulation T exceeds the available equity in the margin account.

Maintenance Call — Occurs when the value of your margin-eligible securities minus your margin debit balance falls below the account maintenance requirement. This requirement is usually 30% for fully marginable equities, but can be higher due to higher margin requirements (e.g., concentrated positions, low value securities, low market cap securities).

Minimum Equity Call — Occurs when an account attempts to utilize margin loan value, and total account equity is below $2,000. Margin is not available for accounts below $2,000, and any call amount is due promptly.

Satisfying Margin Calls

Margin calls must be satisfied immediately, but no later than the displayed due date. You may meet a margin call by transferring or depositing funds and/or marginable securities into your Merrill Self-Directed account. It's possible to appreciate out of a margin maintenance call, but you can't partially appreciate out. Any portion of the call that's not met with appreciation will retain the oldest call's due date. If any margin call(s) become past due, appreciation is not taken into consideration for the purposes of resolving the margin calls. Please contact a Merrill Edge Self-Directed Investment Center associate to review methods of satisfying margin calls by the appropriate due dates.

Firm Practices: As disclosed in the Margin Risk Disclosure Statement hereto, a decline in the value of securities that are purchased on margin may require you to provide additional funds to us to avoid the forced sale of those securities or other securities or assets in your account(s). If the equity in your account falls below the maintenance margin requirements or Merrill's higher "house" requirements, the firm can sell the securities or other assets in any of your accounts held by us to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

Securities or other assets may be sold without contacting you. The firm may increase our "house" maintenance margin requirements at any time and is not required to provide you advance written notice. These changes in our policy may take effect immediately and may result in the issuance of a maintenance margin call. You are not entitled to an extension of time in the event of a margin call. Your failure to satisfy the call may cause us to liquidate or sell securities in your account(s). For more information, please see the FINRA Margin Disclosure Statement at http://www.finra.org/sites/default/files/InvestorDocument/p005895.pdf.

What Is Day Trading?

Day trading occurs when you buy and sell, or sell and buy, the same security in a margin account on the same day. The following examples would be considered day trading in a margin account:

- Buying a security long and selling on the same trading day.
- Shorting a security and buying to cover in the same trading day.
- Buying a security long and selling the same security short on the same trading day.
- Shorting a security and buying the same position long on the same trading day.

Trades that are not considered day trading:

- Selling a security that was held long overnight prior to executing a new purchase of the same security.
- Buying to close a short security that was held overnight prior to executing a new short sale of the same security.

You will be recognized as a pattern day trader (PDT) if you execute four or more day trades within five business days provided that number of day trades represents at least 6% of the total trading activity during the same five business day period.

If you are considered a pattern day trader, you are required to maintain a minimum equity of $25,000. This minimum equity is separate and distinct from the equity requirement for regular margin accounts and accounts that maintain options.

Day Trading Requirements

Maintenance excess plays an important role in FINRA's day trading rules, rather than a focus on the SMA value in the account. Under these rules, you are required to have sufficient Firm Maintenance Excess (FME) on the maximum day-traded position held during the day and liquidated at any time during the same day.

As explained above, when an account is labeled "pattern day trader account," the minimum day-trading equity of $25,000 must be maintained or day trading is prohibited.

Max Open Day-Traded Position: Any trade that has been established, or entered, that has yet to be closed with an opposing trade. An open position can exist following a buy (long) position, or a sell (short) position. In either case, the position will remain open until an opposing trade has taken place.

Let's assume your account appears as follows:

Account has $25,000 Equity and $2,000 FME
Buy 200 shares ABC @ $40 = $8,000
Buy 200 shares DEF @ $30 = $6,000
Sell 200 shares ABC @ $41 = $8,200
Sell 200 shares DEF @ $30.5 = $6,100

Calculation of Day Trade Call:
Day Trade Call = 30% × maximum day-traded position – (FME + Cash/cash equivalent)
Day Trade Call = 30% × $14,000 – $2,000
Day Trade Call = $4200 – $2,000
Day Trade Call = $2200

Day Trading Requirements (continued)

How Is the Maintenance Requirement Calculated?

The maintenance requirement is calculated based on the type of position that is being traded.

Note: See Margin Requirements section for additional information.

How Are Day Trades Calculated?

If the account holds sufficient FME and/or cash to cover the requirement, then the account will not be assessed a day trade call.

Day Trade Call = Maintenance Margin requirement x Max day-traded position – (Firm Maintenance Excess – Maintenance Call +/- Cash +/- Intraday money movement – Short Market Value on Cash – Short Put Value on Cash)

Day Trade Buying Power: The funds available in your pattern day trading margin account to place day trades. Day Trade Buying Power is based on the maintenance requirement of the security being traded and varies by product type and price per share. In addition to standard margin rules, day trade buying power is calculated and monitored for Pattern Day Trader accounts.

Day Trade Call

Learn more about day trade calls by visiting this link.

For unrestricted accounts:

Any amount by which the current maintenance requirement on the Open Day-Traded positions with the highest maintenance requirements exceeds the maintenance excess in the account (based on the previous business day's closing prices) is termed a day trade call. If an account has two or more day trades occur on the same day in the same account, the margin required will be computed utilizing the highest (dollar amount) open position during that day. This must be deposited within four business days.

The formula used to determine the amount of a day trade call is:

Day Trade Call = Maintenance Margin requirement x Max day-traded position – (Firm Maintenance Excess – Maintenance Call +/- Cash +/- Intraday money movement – Short Market Value on Cash – Short Put Value on Cash)

Example of a Day Trade Call for a Non-Pattern Day Trader:

Let's assume your account appears as follows:

Account has $1,000 FME from the previous day:

Buy	100 shares ABC @ $50 = $5,000
Sell	100 shares ABC @ $52 = $5,200
Buy	200 shares DEF @ $30 = $6,000
Sell	200 shares DEF @ $31 = $6,200

Calculation of Day Trade Call:

Day Trade Call = 30% × max open day-traded position – (FME + Cash/cash equivalent)
Day Trade Call = 30% × $6,000 – $1,000
Day Trade Call = $1,800 – $1,000
Day Trade Call = $800

The above example illustrates two day trades that occurred the same day. Since the ABC and DEF positions were not open at the same time during the day, the purchase of the DEF shares is considered the max day-traded position because it has a high total cost. Since the purchase of DEF shares has a higher total cost, we utilize this amount to determine the day trade call.

Example of a Day Trade Call for a Pattern Day Trader (Unrestricted) with $25,000 or more in equity:

Let's assume your account appears as follows:

Account has $25,000 Equity and $2,000 FME

Buy	200 shares ABC @ $40 = $8,000
Sell	200 shares ABC @ $41 = $8,200
Buy	200 shares DEF @ $30 = $6,000
Sell	200 shares DEF @ $30.5 = $6,100

Calculation of Day Trade Call:

Day Trade Call = 30% × maximum day traded position – (FME + Cash/cash equivalent)
Day Trade Call = 30% × $8,000 – $2,000
Day Trade Call = $2,400 – $2,000
Day Trade Call = $400

Accounts below $25,000 minimum day trade equity:

A pattern day trader account that begins the day with margin equity below $25,000 is issued a day trade minimum equity call and is prohibited from day trading.

Any day trades while below minimum equity are considered trade-through violations and require trade bust.

Restricted accounts:

Pattern day trader accounts that incur a day trade call have four business days to cover the call.

During the Day Trade Call time frame, day trade buying power will be reduced to 2 times Firm Maintenance Excess (FME) without the benefit of time & tick.

If the Day Trade Call is not met within the four business days, subsequent trading will be permitted only on a "cash available" basis for 90 days or until the call is met. Any day trading in excess of cash available is prohibited. Cash available is equivalent to 1 times Firm Maintenance Excess (FME) without the availability of time & tick.

Allowable methods to cover a Day Trade Call:

- Deposit a check
- Wire in funds
- Transfer in funds
- Deposit marginable stock
- Journal cash or securities from other Bank of America or Merrill accounts

Note: Funds must be held in the account for two business days following the close of business on the day of the deposit.

Violations

A violation occurs when a transaction takes place in a securities account contrary to the rules established by various regulatory agencies such as the Federal Reserve Board and the Financial Industry Regulatory Authority (FINRA). Learn more about trading violations.

Unmet Day Trade Call (Day Trade Violation)

A Day Trade Violation occurs when you fail to deliver funds and/or margin-eligible securities within four business days after the inception of a day trade call.

For Pattern Day Trader Accounts, if the Day Trade Call is not met within the four business days, subsequent trading will be permitted only on a "cash available" basis for 90 days or until the call is met. Any day trading in excess of cash available is prohibited. Cash available is equivalent to 1 times Firm Maintenance Excess (FME) without the availability of time & tick.

For Non-Pattern Day Trader Accounts, an account will not incur a 90-day restriction until three day trade calls have been incurred in a rolling twelve-month period.

Restrictions

90-Day Restriction: Account is restricted to a cash-on-hand basis for entering trades. Your account will be blocked from trading if sufficient funds are not available at point of entry.

Trade Through Violation: Once an account is on a 90-day restriction, any trades that violate the cash-on-hand requirement is subject to being canceled.

FAQs

When must the loan be paid?

Your loan, or debit balance, is an open-ended collateralized loan. You may keep the loan open for as long as you choose, provided you comply with the terms of the account and Merrill is satisfied with the conditions of your margin account.

When is interest charged in a short account?

Whenever the short market value (settled) exceeds the credit balance (settled), interest is charged on the difference. In a mixed account (long and short) with a debit balance (settled), interest is charged on the debit balance (settled) plus the short market value (settled).

Can an increase in margin requirements cause a margin call?

Yes, an increase in margin requirements could potentially cause a maintenance call. Investing your entire portfolio in a single stock or market sector is one example where you might see margin requirements increased.

What methods may I use to reduce or pay off my debit balance (loan)?

You may reduce or pay off your debit balance by depositing cash into your account or liquidating securities. The proceeds from the liquidation will be applied to your debit balance.

I sold a stock short, and now I am being charged whenever the company pays a dividend. Why is that?

The shorted stock was borrowed in order to be sold in the open market, so the dividends are being paid to the current holder who purchased the shares. Since the dividend income is being paid to the new holder, the short seller has the obligation to make up that lost revenue that is also due to the original owner. A short seller is obligated to cover dividends and any corporate reorganizations that occur in the shorted security.

When can I begin to trade using margin?

Margin trading may begin once the account is fully approved and the system is updated to reflect margin buying power.

How does Merrill handle substitute dividend payments?

Should this disparate tax treatment result in the loss of a tax benefit of $1.00 or more, Merrill will credit your account(s) with an amount calculated to ensure that the receipt of a substitute payment rather than a qualified dividend or tax-exempt interest does not adversely impact you.

On Non-Automatic Cash Sweep Funds:

A non-automatic cash sweep fund is a transfer of cash (i.e., free credit balances) from your account at Merrill to a non-automatic sweep bank deposit account and/or to a money market mutual fund(s) that requires that a specific order, authorization, or draft be entered to transfer funds in the case of transfer to the non-automatic sweep bank deposit account, or that a buy order be entered to obtain new shares and a sale order must be entered to obtain cash in the case of money market mutual funds. Non-Cash Sweep Funds have no automatic features in place to clear obligations, purchases, withdrawals, or other types of debits and liabilities that incurred in your account(s). Non-Cash Sweep Funds are not a part of the Cash Sweep Program in which you may be enrolled. Accordingly, any debits or liabilities in your accounts will not be automatically cleared by a transfer of funds or redemption of money market fund shares in a non-Cash Sweep Fund. Failure to redeem a non-Cash Sweep Fund to satisfy any open obligations in your account could lead to margin interest charges in margin accounts and overdrafts in cash and margin accounts. Nothing in this paragraph should be viewed or considered to waive or limit any rights we have in your accounts as described in this Agreement, including, but not limited to, any security interests or liens we may have in your account, liquidation rights, or the ability to charge fees or impose limitations on your account(s).

Important Margin Definitions

Bond: An interest-bearing security that obligates the issuer to pay the bondholder a specified amount of money, usually at a specified period of time, and to repay the principal amount of the loan at maturity.

Business Day: A day in which the exchanges are open for business in the U.S.

Buying Power: Buying power represents the dollar amount of marginable equity securities priced above $10.00 per share that the client could buy without going into a Regulation T call or a Maintenance call (if nothing else in the account changes).

Buying Power = The lower of SMA /.5 or FME/.3

Collateral: Assets pledged to guarantee a loan. Forced liquidation of assets can be completed to cover the open loan if necessary.

Common Stock: A security issued in shares that represents ownership of a corporation. Shares are sold to raise money for the company. In some cases, owners may vote and receive dividends.

Convertible Security: A security — usually a bond or preferred stock— that can be converted into a different security, typically shares of the company's common stock.

Corporate Bond: A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for companies with top-flight credit.

Credit Balance: 1) Positive cash balance in a margin account. 2) If the account holds short positions, an amount held to cover the client's liability.

Day Trade: Day trading occurs when you buy and sell, or sell and buy, the same security in a margin account on the same day. The following examples would also be considered day trading:

- Buying a security long and selling on the same trading day.
- Shorting a security and buying to cover in the same trading day.
- Buying a long and selling the same security short on the same trading day.
- Shorting a security and buying the same position long on the same trading day.

Day Trade Buying Power: The funds available in your pattern day trading margin account to place day trades. Day trade buying power is based on the maintenance requirement of the security being traded and varies by product type and price per share.

In addition to standard margin rules, day trade buying power is calculated and monitored, and the minimum equity threshold for day trading is increased to $25,000.

Debit Balance: The actual loan amount in a margin account.

Equity: A stock or any other security representing the client's ownership interest.

Exchange-Traded Fund (ETF): Investment that's built like a mutual fund but trades like an individual stock, with the objective of achieving the same return as a particular market index.

Federal Deposit Insurance Corporation (FDIC): An independent agency that provides deposit insurance to guarantee the safety of depositors' accounts.

Federal Reserve Board: The Federal Reserve System is the central bank of the United States.

Financial Industry Regulatory Authority (FINRA): A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. FINRA is responsible for governing business between Broker-Dealers and the investing public.

Firm Maintenance Excess (FME): FME is the equity in your account in excess of the current maintenance requirement, based on the closing value of your portfolio. Firm Maintenance Excess is one of the values that could factor into how much you can trade and withdraw.

Forced Liquidation: Selling of assets completed by Merrill to cover an open loan if necessary.

Freeriding Violation: A violation incurred by buying and selling a position without fully settled funds.

Interest Charge: Margin interest is charged for the current month. [(Average Debit Balance x # of days x Margin Interest Rate)/360 days]

IRA: Individual Retirement Account

Liquidation: Selling a position

Liquidation Violations: A margin technical violation also occurs when you liquidate securities to satisfy a Reg T call and had an existing maintenance call at the close of business the day before the liquidation takes place.

Loan Value: The percentage of current market value assigned to specified types of collateral. This controls the amount of money that a brokerage firm can lend to a client.

Long Market Value: The combined total value of leveragable positions held long in your account multiplied by the current market prices. This value does not include cash positions.

Important Margin Definitions (continued)

Maintenance Call: Occurs when the value of your margin-eligible securities, minus your margin debit balance, falls below the account maintenance requirement. This requirement is usually 30% for fully marginable equities, but can be higher due to higher margin requirements (e.g., concentrated positions, low value securities, low market cap securities).

Maintenance Requirement: The minimum amount of equity that the firm requires to support the various types of positions held in the account. This applies to long and short positions.

Margin: An extension of credit by Merrill using marginable securities that are held as collateral.

Margin Account: A loan account that can be used to purchase additional securities or to withdraw funds for other purposes. Interest is charged on all loans based on the value of the loan, the time the loan is open and the daily interest rate.

Margin Equity: The net value of your portfolio in a margin account available for margin. It is derived by taking your long market value (LMV) minus any short market value (SMV) and adding any margin credit balance (CR) or subtracting any margin debit balance (DR). However, options are included in the margin/option equity calculation. Bank deposits available in Merrill are not included in this calculation.

Margin Interest: This is charged based on the amount of money borrowed and the length of time the loan is outstanding. The Margin Interest rate is based on your total loan amount and are subject to change.

Max Open Day-Traded Position: Any trade that has been established, or entered, that has yet to be closed with an opposing trade. An open position can exist following a buy (long) position, or a sell (short) position. In either case, the position will remain open until an opposing trade has taken place.

Minimum Margin Equity: For margin accounts that do not maintain short option positions, the FINRA requirement is $2,000. The requirement for pattern day traders is $25,000.

Municipal Bonds: Debt securities issued by states, cities, counties and other governmental entities.

Mutual Fund: An investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Non-Automatic Cash Sweep Funds: A non-automatic cash sweep fund is a transfer of cash (i.e., free credit balances) from your account at Merrill to a non-automatic sweep bank deposit account and/or to a money market mutual fund(s) that requires that a specific order, authorization, or draft be entered to transfer funds in the case of transfer to the non-automatic sweep bank deposit account, or that a buy order be entered to obtain new shares and a sale order must be entered to obtain cash in the case of money market mutual funds. Non-Cash Sweep Funds have no automatic features in place to clear obligations, purchases, withdrawals, or other types of debits and liabilities that incurred in your account(s). Non-Cash Sweep Funds are not a part of the Cash Sweep Program in which you may be enrolled. Accordingly, any debits or liabilities in your accounts will not be automatically cleared by a transfer of funds or redemption of money market fund shares in a non-Cash Sweep Fund. Failure to redeem a non-Cash Sweep Fund to satisfy any open obligations in your account could lead to margin interest charges in margin accounts and overdrafts in cash and margin accounts. Nothing in this paragraph should be viewed or considered to waive or limit any rights we have in your accounts as described in this Agreement, including, but not limited to, any security interests or liens we may have in your account, liquidation rights, or the ability to charge fees or impose limitations on your account(s).

Pattern Day Trading: Accounts in which four or more day trades occur within five consecutive business days are classified as pattern day trader accounts. Financial Industry Regulatory Authority (FINRA) rules require firms to monitor client accounts engaged in day trading.

Pattern day trading accounts are subject to a set of special margin rules that relate specifically to that practice. In addition to standard margin rules, day trade buying power is calculated and monitored, and the minimum equity threshold for day trading is increased to $25,000. Day trade buying power is based on the maintenance requirement of the security being traded and varies by product type and price per share.

Preferred Stock: Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares.

Regulation T: Regulation T is a Federal Reserve Board regulation that governs customer cash accounts and the amount of margin brokerage firms may extend to customers to purchase securities.

Regulation T Call: Occurs when required margin under Regulations T exceeds the equity in the margin account.

Regulation T Excess: The amount in which the equity exceeds the current initial margin requirements of the positions held in the margin account.

Restricted Account: An account that has lost trading privileges or is working with reduced availability (e.g., restricted to cash-on-hand for 90 days).

Sale Not Long Violation: A sale-not-long occurs when you sell a security that you did not hold long in your cash account.

Securities: Financial instruments that represent an ownership position in a publicly traded corporation (stock), a creditor relationship with governmental body or a corporation (bond), or rights to ownership as represented by an option. A security is a fungible, negotiable financial instrument that represents some type of financial value. The company or entity that issues the security is known as the issuer.

Securities and Exchange Commission (SEC): The federal agency responsible for enforcing the laws governing the securities industry.

Settlement Date: The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

Important Margin Definitions (continued)

Short Market Value: The total market value of short positions present in your account.

Short Position: Shares sold short in an account. This must be done as a short sale in a margin account.

Short Sale: A market transaction in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future.

Special Memorandum Account: Special Memorandum Account (SMA) reflects any excess equity in your margin account that is above the required amount, which is generally 50% of marginable securities.

Stock: A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

Technical Violation: A technical violation occurs when you liquidate a fully paid security to cover a previous purchase.

Time & Tick: Calculating day trade requirement using each trade in the sequence that it is executed, using the highest open position during the day.

Trade Date: The day on which a trade occurs.

Trade Through Violation: Any trade that exceeds the cash-on-hand requirement is subject to being canceled as it violates the initial restriction.

Treasury Bills: A short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).

Treasury Bonds: Marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income that holders receive is only taxed at the federal level.

Treasury Notes: Marketable U.S. government debt securities with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

90-Day Restriction: Account is restricted to a cash-on-hand basis for entering trades. Your account will be blocked from trading if insufficient funds are available at point of entry.