

CITIGROUP INC
Form 424B2
March 08, 2019

The information in this preliminary pricing supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This preliminary pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 8, 2019
March , 2019

Medium-Term Senior Notes, Series N

Citigroup Global Markets Holdings Inc. Pricing Supplement No. 2019—USNCH2116

Filed Pursuant to Rule 424(b)(2)

Registration Statement Nos. 333-216372 and 333-216372-01

Callable Fixed to Float CMS Spread Range Accrual Securities Contingent on the Worst Performing of the S&P 500® Index, the Russell 2000® Index and the EURO STOXX 50® Index Due March 29, 2034

Variable coupon. The securities will pay interest at a fixed rate of 10.00% per annum for the first 18 months following issuance. After the first 18 months, contingent interest will accrue on the securities during each accrual period at a rate based on the CMS spread described below, but **only** for each elapsed day during that accrual period on which the accrual condition is satisfied. The accrual condition will be satisfied on an elapsed day **only** if the § closing level of **each** underlying index on that day is greater than or equal to its accrual barrier level. Accordingly, contingent interest during each accrual period, if any, will depend on the CMS spread and the level of each underlying index. The amount of interest payable on the securities may be adversely affected by adverse movements in **any one** of these variables, regardless of the performance of the others. The securities may pay low or no interest for extended periods of time or even throughout the entire term after the first 18 months.

§ **Call right.** We have the right to call the securities for mandatory redemption on any coupon payment date beginning approximately one year after the issue date.

Contingent repayment of principal at maturity. If we do not redeem the securities prior to maturity, your payment at maturity will depend on the closing level of the **worst performing** underlying index on the final valuation date. If the closing level of the worst performing underlying index on the final valuation date is greater than or equal to its § final barrier level, you will be repaid the stated principal amount of your securities at maturity. However, if the closing level of the worst performing underlying index on the final valuation date is less than its final barrier level, you will lose 1% of the stated principal amount of your securities for every 1% by which the worst performing underlying index has depreciated from its initial index level. There is no minimum payment at maturity.

The securities offered by this pricing supplement are unsecured debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. Investors must be willing to accept (i) an investment that may have § limited or no liquidity and (ii) the risk of not receiving any amount due under the securities if we and Citigroup Inc. default on our obligations. **All payments on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

KEY TERMS

Issuer: Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.
Guarantee: All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.

Stated principal amount: \$1,000 per security

Underlying indices: **Underlying indices** **Initial index level*** **Accrual barrier level**** **Final barrier level*****
 S&P 500® Index
 Russell 2000® Index
 EURO STOXX 50® Index

* For each underlying index, its closing level on the pricing date

** For each underlying index, 70% of its initial index level

*** For each underlying index, 65% of its initial index level

CMS spread: On any CMS spread determination date, the 30-year constant maturity swap rate (“CMS30”) *minus* the 2-year constant maturity swap rate (“CMS2”) on that day. See “Information About the CMS Spread” in this pricing supplement.

CMS spread determination date: For any accrual period commencing on or after September 29, 2020, the second U.S. government securities business day prior to the first day of that accrual period

Pricing date: March 27, 2019

Issue date: March 29, 2019

Final valuation date: March 27, 2034, subject to postponement if such date is not a scheduled trading day or certain market disruption events occur

Maturity date: Unless earlier redeemed, March 29, 2034
 Unless earlier redeemed, at maturity you will receive, for each security you then hold (in addition to the final coupon payment, if any):

· If the final index level of the worst performing underlying index is **greater than or equal to** its final barrier level: \$1,000

· If the final index level of the worst performing underlying index is **less than** its final barrier level:

Payment at maturity: \$1,000 + (\$1,000 × the index return of the worst performing underlying index)

If the final index level of the worst performing underlying index is less than its final barrier level, you will have full downside exposure to the negative index return of the worst performing underlying index and will receive significantly less than the stated principal amount of your securities at maturity. You may lose a significant portion, and up to all, of your investment.

On each coupon payment date occurring during the first 18 months following issuance of the securities, the securities will pay a fixed coupon of 10.00% per annum, regardless of the CMS spread or the levels of the underlying indices.

Coupon payments: On each coupon payment date after the first 18 months (beginning in December 2020), you will receive a coupon payment at an annual rate equal to the variable coupon rate for that coupon payment date. The variable coupon rate for any coupon payment date after the first 18 months will be determined as follows:

relevant contingent rate per annum × number of accrual days during the related accrual period

number of elapsed days during the related accrual period

Each coupon payment per security will be equal to (i) \$1,000 *multiplied by* the applicable coupon rate per annum *divided by* (ii) 4.

If the number of accrual days in a given accrual period is less than the number of elapsed days in that accrual period, the variable coupon rate for the related coupon payment date will be less than the full relevant contingent rate, and if there are no accrual days in a given accrual period, the variable coupon rate for the related coupon payment date will be 0%.

The relevant contingent rate for any coupon payment date after the first 18 months following issuance of the securities means:

30.00 × the CMS spread (as of the CMS spread determination date for the related accrual period), subject to a minimum relevant contingent rate of 0.00% per annum and a maximum relevant contingent rate of 10.00% per annum.

Relevant contingent rate:

If the CMS spread for any CMS spread determination date is less than or equal to 0.00%, the relevant contingent rate for that accrual period will be 0.00% and you will not receive any coupon payment on the related coupon payment date. The relevant contingent rate will in no event exceed 10.00% per annum.

Listing: The securities will not be listed on any securities exchange

Underwriter: Citigroup Global Markets Inc. (“CGMI”), an affiliate of the issuer, acting as principal

Underwriting fee and issue price: Issue price⁽¹⁾ Underwriting fee⁽²⁾ Proceeds to issuer

Per security: \$1,000 \$47.50 \$952.50

Total: \$ \$ \$

(Key Terms continued on next page)

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the securities on the pricing date will be at least \$850 per security, which will be less than the issue price. The estimated value of the securities is based on CGMI’s proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See “Valuation of the Securities” in this pricing supplement.

(2) For more information on the distribution of the securities, see “Supplemental Plan of Distribution” in this pricing supplement. In addition to the underwriting fee, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the securities declines. See “Use of Proceeds and Hedging” in the accompanying prospectus.

Investing in the securities involves risks not associated with an investment in conventional debt securities. See “Summary Risk Factors” beginning on page PS-7.

Neither the Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense. You should read this pricing supplement together with the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, each of which can be accessed via the following hyperlinks:

[Product Supplement No. IE-05-05 dated April 7, 2017](#)

[Underlying Supplement No. 7 dated July 16, 2018](#)

[Prospectus Supplement and Prospectus each dated April 7, 2017](#)

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

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**KEY TERMS
(CONTINUED)**

Coupon payment dates:	The 29th day of each March, June, September and December beginning on June 29, 2019, except that the final coupon payment date will be the maturity date (or the earlier date on which we redeem the securities, if applicable)
Accrual period:	For each coupon payment date after the first 18 months following issuance of the securities, the period from and including the immediately preceding coupon payment date to but excluding such coupon payment date
Accrual day:	An elapsed day on which the accrual condition is satisfied
Elapsed day:	Calendar day
Accrual condition:	The accrual condition will be satisfied on an elapsed day if, and only if, the closing level of each underlying index is greater than or equal to its accrual barrier level on that elapsed day. For purposes of determining whether the accrual condition is satisfied on any elapsed day, if the closing level of any underlying index is not available for any reason on that day (including weekends and holidays), the closing level of such underlying index will be assumed to be the same as on the immediately preceding elapsed day (subject to the discussion in the section “Description of the Securities—Terms Related to the Underlying Index—Discontinuance or Material Modification of the Underlying Index” in the accompanying product supplement). In addition, for all elapsed days from and including the fourth-to-last day that is a scheduled trading day for each underlying index in an accrual period to and including the last elapsed day of that accrual period, the closing levels of the underlying indices will not be observed and will be assumed to be the same as on the elapsed day immediately preceding such unobserved days.
Worst performing underlying index:	The underlying index with the lowest index return
Final index level:	For each underlying index, its closing level on the final valuation date
Index return:	For each underlying index, (i) its final index level <i>minus</i> its initial index level, <i>divided by</i> (ii) its initial index level
Early redemption:	We have the right to redeem the securities, in whole and not in part, on any coupon payment date on or after March 30, 2020 upon not less than five business days’ notice for an amount in cash equal to 100% of the stated principal amount of your securities plus the coupon payment due on the date of redemption, if any.
CUSIP / ISIN:	17326YL95 / US17326YL957

Additional Information

General. The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, certain events may occur that could affect the amount of any variable coupon payment you receive and your payment at maturity. These events and their consequences are described in the accompanying product supplement in

the sections “Description of the Securities—Terms Related to the Underlying Index—Discontinuance or Material Modification of the Underlying Index” and “Description of the Securities—Terms Related to the Underlying Index—Consequences of a Market Disruption Event; Postponement of the Final Valuation Date,” and not in this pricing supplement. In addition, the accompanying underlying supplement contains important disclosures regarding the underlying indices that are not repeated in this pricing supplement. It is important that you read the accompanying product supplement, underlying supplement, prospectus supplement and prospectus together with this pricing supplement before deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

Although the accompanying product supplement contemplates only a single underlying index, the securities are linked to three underlying indices. Each of the provisions in the accompanying product supplement referring to the underlying index shall apply separately to each of the underlying indices to which the securities are linked.

Postponement of the final valuation date. If the scheduled final valuation date is not a scheduled trading day for any underlying index or if a market disruption event occurs with respect to any underlying index on the scheduled final valuation date, the final valuation date will be subject to postponement as described in the accompanying product supplement in the section “Description of the Securities—Terms Related to the Underlying Index—Consequences of a Market Disruption Event; Postponement of the Final Valuation Date.” If the scheduled final valuation date is postponed, the closing level of each underlying index in respect of the final valuation date will be determined based on (i) for any underlying index for which the originally scheduled final valuation date is a scheduled trading day and as to which a market disruption event does not occur on the originally scheduled final valuation date, the closing level of such underlying index on the originally scheduled final valuation date and (ii) for any other underlying index, the closing level of such underlying index on the final valuation date as postponed (or, if earlier, the first scheduled trading day for such underlying index following the originally scheduled final valuation date on which a market disruption event did not occur with respect to such underlying index).

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Hypothetical Examples

Variable Coupon Payments

The sections below provide examples of how the variable coupon payments on the securities will be determined. The first section, “—Determining the Hypothetical Relevant Contingent Rate,” provides a limited number of hypothetical examples of how the relevant contingent rate for any accrual period will be determined based on hypothetical CMS spread values, as determined on the second U.S. government securities business day prior to the beginning of the applicable accrual period. The second section, “—Determining the Hypothetical Variable Coupon Rates and Coupon Payment Amounts,” provides a limited number of hypothetical examples of how the coupon payments on the securities will be determined based on a limited number of hypothetical relevant contingent interest rates and a limited number of hypothetical accrual days during a hypothetical accrual period. The figures below have been rounded for ease of analysis.

Determining the Hypothetical Relevant Contingent Rate

The table below presents examples of hypothetical relevant contingent rates based on various hypothetical CMS spread values.

Example	Hypothetical CMS Spread*	Hypothetical Relevant Contingent Rate per Annum**
1	-1.00%	0.00%
2	-0.80%	0.00%
3	-0.60%	0.00%
4	-0.40%	0.00%
5	-0.20%	0.00%
6	0.00%	0.00%
7	0.10%	3.00%
8	0.20%	6.00%
9	0.30%	9.00%
10	0.40%	10.00%
11	0.50%	10.00%
12	0.60%	10.00%
13	0.80%	10.00%
14	1.00%	10.00%
15	1.20%	10.00%
16	1.40%	10.00%
17	1.60%	10.00%
18	1.80%	10.00%

19	2.00%	10.00%
20	2.20%	10.00%
21	2.40%	10.00%
22	2.60%	10.00%

* Hypothetical CMS spread = (CMS30 – CMS2), where CMS30 and CMS2 are determined on the second U.S. government securities business day prior to the beginning of the applicable accrual period.

** Hypothetical relevant contingent rate per annum for the accrual period = 30.00 × hypothetical CMS spread, subject to a minimum of 0.00% and a maximum of 10.00% per annum.

Determining the Hypothetical Variable Coupon Rates and Variable Coupon Payments

The tables below present examples of the hypothetical variable coupon rate and hypothetical variable coupon payments after the first 18 months following issuance of the securities based on the number of accrual days in a particular accrual period and different assumptions about the CMS spread. For illustrative purposes only, the tables assume an accrual period that contains 90 elapsed days and that the securities have not previously been redeemed. The actual coupon payment for any coupon payment date after the first 18 months will depend on the actual number of accrual days and elapsed days during the related accrual period and the actual CMS spread on the CMS spread determination date for that accrual period. The variable coupon rate for each accrual period will apply only to that accrual period.

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Assuming the CMS spread is 0.10% on the applicable CMS spread determination date:

Hypothetical Number of Accrual Days in Accrual Period*	Hypothetical Relevant Contingent Rate per Annum**	Hypothetical Variable Coupon Rate per Annum***	Hypothetical Variable Coupon Payment per Security****
0	3.000%	0.000%	\$0.00
15	3.000%	0.500%	\$1.25
30	3.000%	1.000%	\$2.50
45	3.000%	1.500%	\$3.75
60	3.000%	2.000%	\$5.00
75	3.000%	2.500%	\$6.25
90	3.000%	3.000%	\$7.50

Assuming the CMS spread is 2.00% on the applicable CMS spread determination date:

Hypothetical Number of Accrual Days in Accrual Period*	Hypothetical Relevant Contingent Rate per Annum**	Hypothetical Variable Coupon Rate per Annum***	Hypothetical Variable Coupon Payment per Security****
0	10.00%	0.000%	\$0.00
15	10.00%	1.667%	\$4.17
30	10.00%	3.333%	\$8.33
45	10.00%	5.000%	\$12.50
60	10.00%	6.667%	\$16.67
75	10.00%	8.333%	\$20.83
90	10.00%	10.000%	\$25.00

Assuming the CMS spread is 0.00% on the applicable CMS spread determination date:

Hypothetical Number of Accrual Days in Accrual Period*	Hypothetical Relevant Contingent Rate per Annum**	Hypothetical Variable Coupon Rate per Annum***	Hypothetical Variable Coupon Payment per Security****
0	0.00%	0.000%	\$0.00
15	0.00%	0.000%	\$0.00
30	0.00%	0.000%	\$0.00
45	0.00%	0.000%	\$0.00
60	0.00%	0.000%	\$0.00
75	0.00%	0.000%	\$0.00
90	0.00%	0.000%	\$0.00

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* An accrual day is an elapsed day on which the accrual condition is satisfied (i.e., on which the closing level of each underlying index is greater than or equal to its accrual barrier level)

** The hypothetical relevant contingent rate is equal to $30.00 \times$ CMS spread (as of the CMS spread determination date for the related accrual period), subject to a minimum of 0.00% and a maximum of 10.00% per annum

*** The hypothetical variable coupon rate per annum is equal to (i) the hypothetical relevant contingent rate per annum *multiplied by* (ii) (a) the hypothetical number of accrual days in the related accrual period *divided by* (b) 90

**** The hypothetical variable coupon payment per security is equal to (i) \$1,000 *multiplied by* the hypothetical variable coupon rate per annum *divided by* (ii) 4

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Payment at Maturity

The diagram below illustrates your payment at maturity for a range of hypothetical index returns of the worst performing underlying index (excluding the final coupon payment, if any, and assuming we do not redeem the securities prior to maturity).

Callable Fixed to Float Range Accrual Securities

Payment at Maturity Diagram

Your actual payment at maturity per security, excluding the final coupon payment, if any, will depend on the actual initial index level, the actual final barrier level and the actual final index level of the worst performing underlying index. The examples below are intended to illustrate how your payment at maturity will depend on whether the final index level of the worst performing underlying index is greater than or less than its final barrier level and, if less, how much less. The examples are solely for illustrative purposes, do not show all possible outcomes and are not a prediction of what the actual payment at maturity on the securities will be.

The examples below are based on hypothetical initial index levels of 100 and hypothetical final barrier levels of 65 and do not reflect the actual initial index levels or final barrier levels. For the actual initial index levels and final barrier levels, see the cover page of this pricing supplement. We have used these hypothetical levels, rather than the actual levels, to simplify the calculations and aid understanding of how the securities work. However, you should understand that the actual payment at maturity on the securities will be calculated based on the actual initial index levels and final barrier levels, and not these hypothetical levels.

Example 1—Par Scenario A.

Underlying Index	Hypothetical Initial Index Level	Hypothetical Final Barrier Level	Hypothetical Final Index Level	Hypothetical Index Return
S&P 500® Index	100	65	150	50%
Russell 2000® Index	100	65	110	10%
EURO STOXX 50® Index	100	65	130	30%

In this example, the Russell 2000® Index is the worst performing underlying index. Its hypothetical final index level is 110 (a 10% increase from its hypothetical initial index level), which is greater than its hypothetical final barrier level.

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Payment at maturity per security = \$1,000 (excluding the final coupon payment, if any)

Because the final index level of the worst performing underlying index is greater than its final barrier level, you would be repaid the stated principal amount of your securities in this example. Even though each of the underlying indices have appreciated from their respective initial index levels in this example, you would not participate in the appreciation of any underlying index.

Example 2—Par Scenario B.

Underlying Index	Hypothetical Initial Index Level	Hypothetical Final Barrier Level	Hypothetical Final Index Level	Hypothetical Index Return
S&P 500 [®] Index	100	65	90	-10%
Russell 2000 [®] Index	100	65	120	20%
EURO STOXX 50 [®] Index	100	65	110	10%

In this example, the S&P 500[®] Index is the worst performing underlying index. Its hypothetical final index level is 90 (a 10% decrease from its hypothetical initial index level), which is greater than its hypothetical final barrier level.

Payment at maturity per security = \$1,000 (excluding the final coupon payment, if any)

Because the worst performing underlying index did not depreciate from its hypothetical initial index level to its hypothetical final index level by more than 35% (that is, it did not depreciate below its hypothetical final barrier level), your payment at maturity in this scenario would be equal to the \$1,000 stated principal amount per security (excluding the final coupon payment, if any).

Example 3—Downside Scenario.

Underlying Index	Hypothetical Initial Index Level	Hypothetical Final Barrier Level	Hypothetical Final Index Level	Hypothetical Index Return
S&P 500 [®] Index	100	65	70	-30%
	100	65	80	-20%

Russell 2000® Index			
EURO STOXX 50® Index	100	65	30
			-70%

In this example, the EURO STOXX 50® Index is the worst performing underlying index. Its hypothetical final index level is 30 (an approximately 70% decrease from its hypothetical initial index level), which is less than its hypothetical final barrier level. As a result, your payment at maturity (excluding the final coupon payment, if any) would be calculated as follows:

Payment at maturity per security = \$1,000 + (\$1,000 × the index return of the worst performing underlying index)

$$= \$1,000 + (\$1,000 \times -70\%)$$

$$= \$1,000 + -\$700$$

$$= \$300$$

Because the worst performing underlying index depreciated from its hypothetical initial index level to its hypothetical final index level by more than 35% (that is, it depreciated below its hypothetical final barrier level), your payment at maturity in this scenario would reflect 1-to-1 exposure to the negative performance of the worst performing underlying index from its initial index level to its final index level.

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Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with CMS30, CMS2 and each of the underlying indices. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section “Risk Factors Relating to the Securities” beginning on page IE-6 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.’s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

You may lose some or all of your investment. Unlike conventional debt securities, the securities do not repay a fixed amount of principal at maturity. Instead, your payment at maturity will depend on the performance of the worst performing underlying index. If we do not redeem the securities prior to maturity, you may receive significantly less than the stated principal amount of the securities at maturity, but in no circumstance will you receive more than the § stated principal amount of the securities (excluding the final coupon payment, if any). If the final index level of the worst performing underlying index is less than its final barrier level, you will lose 1% of the stated principal amount of the securities for every 1% by which the final index level of the worst performing underlying index is less than its initial index level. There is no minimum payment at maturity on the securities, and you may lose up to all of your investment.

The barrier feature of the securities exposes you to particular risks. If the final index level of the worst performing underlying index is less than its final barrier level, you will not be repaid the stated principal amount of your securities at maturity and instead will lose 1% of the stated principal amount of the securities for every 1% by § which the final index level of the worst performing underlying index is less than its initial index level. Therefore, the securities offer no protection at all if the worst performing underlying index depreciates by more than 35% from its initial index level to its final index level. As a result, you may lose your entire investment in the securities.

§ The securities offer a variable coupon rate after the first 18 months following issuance, and you may not receive any coupon payment on one or more coupon payment dates. Any variable coupon payment you receive will be paid at a per annum rate equal to the relevant contingent rate for the applicable coupon payment date only if the accrual condition is satisfied on each elapsed day during the related accrual period. The accrual condition will be satisfied on any elapsed day only if the closing level of each underlying index on that elapsed day is greater than or

equal to its respective accrual barrier level. If, on any elapsed day during an accrual period, the accrual condition is not satisfied, the applicable variable coupon payment will be paid at a rate that is less, and possibly significantly less, than the relevant contingent rate. If, on each elapsed day during an accrual period, the accrual condition is not satisfied, no variable coupon payment will be made on the related coupon payment date. Accordingly, there can be no assurance that you will receive a variable coupon payment on any coupon payment date or that any variable coupon payment you do receive will be calculated at the full relevant contingent rate. Furthermore, because the relevant contingent rate is a floating rate determined by reference to the CMS spread, the securities are subject to a contingency associated with the CMS spread. The relevant contingent rate will vary based on fluctuations in the CMS spread. If the CMS spread narrows, the relevant contingent rate will be reduced. The relevant contingent rate may be as low as zero for any coupon payment date. If the relevant contingent rate is zero for any coupon payment date, you will not receive any variable coupon payment on that coupon payment date even if the accrual condition is satisfied on each elapsed day in the related accrual period. Thus, the securities are not a suitable investment for investors who require regular fixed income payments.

The relevant contingent rate may decline, possibly to 0.00%, if short-term interest rates rise. Although there is no single factor that determines CMS spreads, CMS spreads have historically tended to fall when short-term interest rates rise. Short-term interest rates have historically been highly sensitive to the monetary policy of the Federal Reserve Board. Accordingly, one significant risk assumed by investors in the securities is that the Federal Reserve Board may pursue a policy of raising short-term interest rates, which, if historical patterns hold, would lead to a § decrease in the CMS spread. In that event, the relevant contingent rate would be reduced, and may be 0.00%, and the floating rate payable on the securities would also decline significantly, possibly to 0.00%. It is important to understand, however, that short-term interest rates are affected by many factors and may increase even in the absence of a Federal Reserve Board policy to increase short-term interest rates. Furthermore, it is important to understand that the CMS spread may decrease even in the absence of an increase in short-term interest rates because it, too, is influenced by many complex factors.

The relevant contingent rate on the securities may be lower than other market interest rates. The relevant contingent rate on the securities will not necessarily move in line with general U.S. market interest rates or even § CMS rates and, in fact, may move inversely with general U.S. market interest rates. For example, if there is a general § increase in CMS rates but shorter-term rates rise more than longer-term rates, the CMS spread will decrease, as will the relevant contingent rate. Accordingly, the securities are not appropriate for investors who seek floating interest payments based on general market interest rates.

The relevant contingent rate on the securities is subject to a cap. As a result, the securities may pay interest at a § lower rate than an alternative instrument that is not so capped.