Glossary of Municipal Finance Terms

**Accreted Value**

The Price of the Zero Coupon Bond on the Call Date as calculated using the original interest rate to maturity as the Yield, the Call Date as the Settlement Date, and the Maturity of the Bond.

**Accrued Interest**

Interest earned on a bond between the dated date (date interest starts accruing) and the date bonds are sold to the bond buyer. Accrued interest is normally paid by the bond buyer upon the purchase of a bond (interest accrued is added to the purchase price) and rebated back to the buyer by the issuer with the first payment. The buyer keeps the full coupon payment when it becomes due.

**Advance Refunding**

Financing transactions under which new bonds are issued to repay an outstanding bond issue prior to its first call date. Money raised from the new issue is usually placed in an escrow account and invested in government securities. The interest and principal repayments of these escrowed securities are used to pay the old bonds until they can be called.

**Ad Volrem Tax**

A tax based on assessed property value.

**Amortization**

A reduction of debt by means of periodic payments, which usually include current interest payments and principal payments sufficient to retire the debt (bond) at maturity.

**AMT Bonds**

The interest from certain tax-free municipal bonds is required to be included in the calculation of alternative minimum tax. These bonds are generally called AMT bonds. Qualified Small Issue bonds (IDBs) are AMT bonds along with other types of Private Activity bonds, excluding 501 (c)(3) bonds.

**Arbitrage**

In general, borrowing at one rate and investing at a higher rate or exploiting the difference between taxable and tax-exempt rates. The differences between the rate of earnings on invested bond proceeds (construction fund, debt service reserve fund, etc.) and the allowable rate or yield on the bonds. The 1986 Tax Reform Act generally requires these excess earnings to be rebated back to the federal government, unless an exception is applicable.
**Ask Price**

The price at which an owner will sell a security.

**Auction Market**

A market for securities in which trading in a particular security is conducted with all qualified persons able to verbally bid or offer securities against orders. U.S. Treasury Securities are offered via auction.

**Authorizing Resolution or Bond Resolution**

Resolution done a day or two before you sell the bonds.

**Average Life of a Bond Issue**

The aggregate life of all bonds (in years) divided by the number of bonds. The average maturity reflects how rapidly the principal of an issue is expected to be paid and is important to underwriters in calculating bids for new issues of municipal bonds. With IDBs, average life is also important to bond counsels in assuring that the life of the property financed with bond proceeds does not exceed 120% of the average weighted maturity of bonds.

**Bank Qualified**

Refers to bond issuers who issue no more than $10 million of general debt, 501(c)(3), and lease obligations in a year. Certain financial institutions like commercial banks are allowed to deduct 80% of the interest expense associated with the purchase of bank qualified issues (e.g., a bank uses its’ CD deposit base, on which it pays interest to CD buyers, to purchase tax-exempts). Eighty percent (80%) of the interest paid to CD buyers can be expensed, in addition to the tax-free income the bank will receive by purchasing a tax-exempt bond. Since the buyers get this added benefit, bonds are generally priced lower than they otherwise would be, in addition to expanding the market for bonds. Only governmental bonds and 501(c)(3) (not IDBs, among others) may qualify for this treatment. This special treatment on a local issuer governmental bond is generally lost when pooled into larger issues by State bond bank issuers, although other “pooling” benefits, such as credit enhancement provided by some State bond bank issuers and lower issuance costs, can still yield a lower all-in borrowing cost for local issuers who could otherwise issue bank qualified bonds.

**Basis Point**

One one-hundredth of one percent (1/100 or .01). Yield differences between fixed income securities are stated in basis points (e.g., the difference between a bond yielding 4.85% and one yielding 4.96% is 11 basis points).

**Bearer Bond**

A bond that has no identification.
**Bid Price**

The price that the buyer will purchase a security.

**Blue List**

A daily list of dealer secondary market offerings in Municipal Bonds published in *The Bond Buyer*. It reflects the supply of bonds that dealers have available in the secondary market. Generally, the greater the supply of bonds available for sale in the secondary market, the lower the demand for bonds in the primary (new issue) market.

**Blue Sky Laws**

A common term for State securities law. Blue Sky Laws vary from State to State. Generally refers to provisions related to prohibitions against fraud, dealer and broker regulations, and securities registration.

**Bond**

A certificate representing a promise to pay a specified sum of money, called the face value or principal amount at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate, which may be a variable rate in the case of variable rate demand obligations. The term “bond” may also mean the par value of $1,000. Although bonds may be issued in any denomination, municipal bond dealers and others use the term bond to mean $1,000 par value regardless of the actual denomination. Thus, a $25,000 bond would be referred to as “25 bonds.”

**Bond Anticipation Note (BAN)**

Short-term obligation issued to temporarily finance a project. Bonds are expected to be sold to repay the BANs and to provide long-term financing for a project.

**The Bond Buyer**

The municipal markets trade journal. Published daily and subscribed to by most investment bankers and many issuers, *The Bond Buyer* provides important municipal supply and demand information; e.g., Visible Supply, Placement Ration, New-Issue Balances, Blue List, etc. The publication also provides a summary source of information on interest rate levels.

**Bond Counsel**

An attorney or law firm retained by the issuer to give a legal opinion that the issuer is: 1) authorized to issue proposed bonds; 2) has met all legal requirements necessary for the issuance; and 3) interest on the proposed bonds will be exempt from federal income taxation and, where applicable, from State and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding, authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.
**Bond Heaven**

When bonds are sold to a portfolio to be held as an investment, as opposed to selling them to another securities dealer who can then re-offer them to other investors.

**Bond Insurance**

Non-cancelable insurance purchased by the issuer of a bond to insure all scheduled payments of interest and principal are made. When an issuer is insured, the investor relies upon the creditworthiness of the insurer rather than the issuer (or in addition to the issuer).

**Bond Purchase Price**

An agreement between the issuer and the underwriter who agrees to purchase a bond issue. A bond purchase agreement generally contains the following: 1) the purchase price to be paid by the underwriter, including any premium or discount; 2) certain terms of the bonds, such as interest rates, maturities, redemption provisions, and original issue discount; 3) the circumstances under which the underwriter may cancel its obligation to purchase the issue such as changes in the tax treatment of the bonds and other events which would make it substantially more difficult for the underwriter to sell the bonds to investors; 4) good faith deposit, if any; 5) the condition to the closing of the issue, which often include documents, certificates and opinions which are to be delivered on the closing date; and 6) any restrictions on the liability of the issuer. Other common names for a bond purchase agreement are “contract of purchase” or “bond purchase contract.”

**Bond Resolution or Ordinance**

The document(s) representing action of the issuer authorizing the issuance and sale of municipal bonds. Issuance of the bonds is usually approved in the authorizing resolution or ordinance, and the sale is usually authorized in a separate document called the “sale” or “award” resolution. All such resolutions, read together, constitute the bond resolution, which describes the nature of obligation and the issuer’s duties to the bondholders.

**Bond Years**

The product of the number of bonds (1 bond = $1,000 regardless of actual denomination) and the period of time from issuance to the stated maturity. It is used in calculating the average life of an issue and the net interest cost (NIC). Computations often include bond years for each maturity or for each interest rate, as well as total bond years for the entire issue.

**Book Entry Bonds**

Registering bonds through an electronic book-entry system. This system replaces the need to provide investors with physical bonds.
Call

A provision which allows the issuer to redeem its debt on a date that is prior to the maturity date of the bond at a price at or above par.

Callable Bonds

Bonds that are redeemable by the issuer prior to the stated maturity date. A date and price are specified.

Call Date

The date on which a bond issuer has the right to redeem all or a portion of an outstanding issue prior to the specified maturity date.

Call Premium

A dollar amount, usually specified as a percentage of the principal amount being redeemed, paid as a “penalty” or a “premium” for the right to redeem early.

Call Price

The specified price that bonds are redeemed under a call provision.

Capital Appreciation Bonds (CABs)

A capital appreciation bond is purchased at a price significantly lower than its face value. The difference between the purchase price and the face value at maturity is the interest earned. Investors that purchase a CAB will receive no periodic interest payments as in a serial bond. A CAB effectively locks in a reinvestment rate on interest earned by an investor (at the bond rate).

Capital Markets

The markets in which capital funds — debt or bonds, and equity or stocks — are bought and sold.

Capitalized Interest

A specified portion of bond proceeds that are used to pay interest on the bonds until revenue from planned sources becomes available, e.g., while the revenue producing project is under construction.

Certificates of Participation (COPs)

Tax-exempt lease/purchase financing enables issuers to avoid issuing general obligation debt, subject to voter approval. The financing is secured by a pledge to seek annual appropriations to make lease payments. COPs represent proportionate shares of interest in the lease payments made by the governmental entity to the trustee.
Proceeds from the sale of COPs fund the purchase of equipment or other improvements. At the end of lease term, the government entity owns financed improvements.

**Co-Manager (Underwriter)**

An underwriting firm participating in a negotiated bond sale who is normally not responsible for maintaining the books of the account for the offering (the senior book-running manager does this and within certain parameters decides which syndicate members get bonds to sell).

**Competitive Sale**

A sale of bonds in which, underwriters submit bids to purchase the bonds. Many States and local governments are required by local statutes to sell bonds, particularly general obligation bonds, this way, instead of through negotiated or private placement methods.

**Constant Maturity**

The U.S. Treasury from the daily yield curve interpolates yields on Treasury securities at “constant maturity.” This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of Quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. The constant maturity yield values are read from the yield curve at fixed maturities, currently 3 and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10-year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity. In estimating the 20-year constant maturity, the Treasury incorporates the prevailing market yield on an outstanding Treasury bond with approximately 20 years remaining to maturity.

**Construction Fund**

Project costs are financed from this fund. The trustee deposits a large portion of bond proceeds into this fund, which earns interest while funds are drawn down to pay construction costs.

**Convertible Bond**

A corporate bond, usually a junior or subordinated debenture, which can be exchanged for shares of the issuer’s common stock at a specified exchange ratio and price.

**Convexity**

The rate of change of duration as yields changed. When large shifts in interest rates occur, bonds with positive convexity perform better than bonds with negative convexity.
**Coupon Rate**

Usually refers to a security’s stated interest rate, expressed as a percentage of the principal amounts of bonds. Coupons are generally paid semi-annually.

**Coverage**

This is a term usually connected with revenue bonds. It indicates the margin of safety for payment of debt service, reflecting the number of times gross or net income must exceed debt service payable.

**Credit Enhancement**

The availability of additional outside support designed to improve an issuer’s own credit standing. Examples include bank letters or credit or lines of credit and bond insurance.

**Credit Rating** (see Rating)

**Current Income**

Money paid during the period that an investment is held: bonds pay interest, and stocks pay dividends.

**Current Yield**

The rate of actual cash flow as a percentage of the purchase price. It is calculated by dividing the annual interest received on the bond by the purchase price; e.g. a bond with a coupon of 4.5% purchased at 96.625% of par has a Current Yield of 4.66% (45/966.25).

**Cushion Bond**

A bond that is not as sensitive to interest rate fluctuations because of its early call option, usually 1-2 years. Its’ price is artificially suppressed because of the early call, and will not change up or down as other similar bonds with longer call dates.

**CUSIP**

A nine-digit identifier number for a security that is used to maintain a uniformed method of identifying municipal, corporate, and U.S. Government securities.

**Dated Date (Or Issued Date)**

The date of a bond issue at which interest starts accruing. The bondholder is entitled to receive interest from the issuer starting from this date even though the bonds may actually be delivered on a later date.
Debenture Bond

Bonds backed by the overall financial condition and pledge of a company issuing the bond. Since there is no collateral, these bonds generally carry a higher risk and therefore, a higher rate of return when compared to a collateralized bond.

Debt Limit

The limit on the principal amount of debt an issuer may legally have outstanding at any time.

Debt Service

The sum of required principal and interest payments for a given period.

Debt Service Reserve Fund (DSRF)

The DSRF may be funded from bond proceeds and is often required for ratings. Funds in the DSRF are used to make debt service payments in the event the pledged sources of payment are insufficient. It is designed to provide a cushion for temporary adversity. The DSRF must be equal to the lesser of 10% of the bond size, maximum annual debt service, or 125% of the average annual debt service on the bonds. The DSRF may also be secured by a surety bond from a bond insurer or by a letter of credit.

Default

Failure to pay principal or interest promptly when due.

Defeasance

A technique or procedure, whereby an issuer of debt discharges its debt prior to maturity. A trust is established and funded with risk-free monetary assets and with a cash flow, matching that of the defeased obligation. Defeasance usually occurs in connection with the refunding of outstanding bonds, by the final payment or provision for future payment, of principal and interest on a prior issue.

Delivery Date

Date the bonds are physically delivered in exchange for payment of the purchase price. The date of issuance is the same date as the delivery date.

Denomination

Face amount of a security. Bonds are usually issued in denominations of $1,000, $5,000, or multiples thereof.

Discount

Difference between a bond’s current market price and its face or redemption value.
**Diversification**

The practice of including, in a portfolio, different types of assets in order to minimize risk or to improve overall portfolio performance. An example is to include bonds of different issuers, differing maturities, and differing credit qualities in one portfolio.

**Double-Barreled Bond**

A municipal bond that is secured by a combination of a general obligation tax pledge and specified revenues. The term is occasionally, although erroneously, used to refer to bonds secured by any two sources of pledge revenue.

**Double Exemption**

Securities, usually tax-free municipal bonds, that are exempt from State income tax as well as federal income taxation. Many States exempt interest earned on bonds issued by political subdivisions within their State from State income taxes.

**Downgrade**

Occurs when a rating agency lowers the rating on outstanding bonds of an issuer.

**Due Diligence**

The process of thorough investigation of a bond issue, usually by underwriter's counsel. This inquiry is made to assure that all material facts are fully disclosed to potential investors and that there have been no material omissions or misstatements of fact. Required for so-called 10b-5 opinions.

**Duration**

A mathematical measure (Macaulay method) to determine how quickly an investor recovers his or her investment. Bonds of similar duration will have the similar price movements for a given move in interest rates. The resulting figure is a measure of the volatility risk associated with owning the bond. If a bond's duration is 4.5 years, the price of the bond will fall 4.5% for 1% rise in interest rates.

**Effective Interest Rate**

The actual rate of interest earned by an investor on bonds purchased, after allowing for premiums, discounts or accrued interest, over the period of the investment.

**Enterprise Activity**

A revenue-generating project, or business, supplying funds necessary to pay debt service on bonds issued to finance the facility; e.g. IDBs, toll roads, water & sewer.
**Escrow Account**

Fund set up to hold pledged money or securities used to pay debt service; e.g., refunding of outstanding bonds.

**Feasibility Study**

A report of the financial practicality of a proposed project and financing thereof, which may include estimates that will be generated and a review of the physical, operating, economic or engineering aspects of the proposed project. It is not uncommon for the rating services to require such studies, performed by credible third party consultants.

**Federal Funds**

Refers to immediately available funds representing non-interest-bearing deposits at Federal Reserve Banks. Frequently used to pay for new issues of municipal bonds.

**Financial Advisor**

With respect to a new issue of municipal bonds, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. Typically used with competitive sales and to a lesser extent, negotiated sales.

**Floating or Variable Interest Rate**

A method of determining the interest rate to be paid on a bond issue by reference to an index, formula, or an interest rate determined by the remarketing necessary to allow the bonds to trade at par, at intervals as stated in the bond contract. The latter method is most common with so-called, low floater, variable-rate demand obligations, where interest rates can be reset daily, weekly and monthly or at other intervals.

**Flow of Funds**

The order and priority of handling, depositing and disbursing pledge revenues, as set forth in the bond contract. Generally, the revenues are deposited, as received, into a general collection account or revenue fund for disbursement into the other accounts established by the bond contract. Such other accounts generally provide for payment of debt service, debt service reserve, operation and maintenance costs, redemption, renewal and replacement and other requirements.

**Full Faith and Credit**

Pledge of the general revenue raising power of the issuer for payment of debt service obligations. Bonds carrying such pledges are usually referred to as general obligation bonds or full faith and credit bonds.
**General Obligation (GO) Bonds**

Municipal bonds backed by the full faith and credit (taxing and borrowing power) of the municipality issuing the bonds.

**Good Faith Deposit**

A sum of money, typically ranging from 1-5% of the par amount of bonds, generally in the form of a cashiers or certified check, which is enclosed with the bid in a competitive sale. The check is returned to unsuccessful bidders. Applied against the purchase price in the case of winning bidders.

**Governmental Bonds**

One of two major categories of tax-exempt bonds established under the 1986 Tax Act. These are bonds issued to finance traditional government projects where the public benefits in contrast to Private Activity Bonds benefiting non-governmental persons.

**Indenture** (See Trust Indenture)

**Industrial Development Bonds (IDBs)**

Qualified Small Issue Bonds for manufacturers.

**Institutional Investor**

An organization investing in securities for the benefit of others. Insurance companies, pension funds, investment managers and mutual funds are institutional investors.

**Insured Bonds**

Many municipal bonds are backed by municipal bond insurance that is specifically designed to reduce investment risk. In the event of a default, the insurance company guarantees payment of principal and interest to the investors for as long as the Default lasts. Most insured bonds carry the highest quality credit rating – AAA.

**Interest**

Compensation paid to a lender (investor) by the borrower (issuer of bonds) for the use of money. Usually expressed as an annual percentage rate, and most often paid semiannually, or twice a year.

**Invested Sinking Fund**

Fund established for the repayment of a term bond into which periodic required deposits are made and invested and then used to call or redeem the term bond.
**Investment Grade**

Bonds graded Baa and higher by Moody’s Investors Service and Fitch Investors Service or BBB and higher by Standard and Poor’s are considered to have only minor speculative characteristics. These are considered to have a high probability of being paid and are considered “investment grade.” Bank examiners require that most bonds held by banks be investment grade.

**Issue Date (See Dated Date)**

Date of a bond issue from which interest starts accruing. The bondholder is entitled to receive interest from the issuer starting from this date even though the bonds may actually be delivered on a later date.

**Issuer**

The entity borrowing money through the issuance of bonds. This can be a State, political subdivision, agency or authority in the case of municipal bonds, a corporation for corporate bonds, and the U.S. Government for Treasury Bonds.

**Junior Lien Bonds**

Bonds that have a subordinate claim against pledged revenues.

**Junk Bond**

A bond rated lower than Baa/BBB. Also called a high yield bond. Bonds with credit ratings below Baa/BBB are considered speculative compared with investment grade bonds. (See Investment Grade.)

**Laddered Portfolio**

A common strategy for investing in bonds is to build a varied portfolio with different maturities, usually staggered evenly over time to provide regular cash flow. For example, you might invest $100,000 in equal amounts of $10,000 that mature in each of ten years. As your principal comes due, you reinvest the amount to mature in ten years. Because funds become available for reinvestment each year, this smooths out the effects of interest rate fluctuations. If interest rates rise, you invest your principal at higher rates; if rates fall you still have most of your portfolio invested in longer term, higher rate bonds.

**Lead Manager**

The underwriting firm participating in a securities offering that is responsible for maintaining the books of the account for the offering. Also called “Book-Running Senior Manager.”
Legal Opinion

An opinion by legal counsel concerning the validity of a securities issue with respect to conformity to statutory authority, and constitutionality, and usually as to the exemption of interest from federal income taxation.

Letter of Credit

An agreement, usually with a commercial bank, to honor demands for payment upon compliance with conditions established in the Agreement. Most IDBs are credit enhanced, with respect to the timely payment of principal and interest and liquidity (ability to repurchase bonds if variable-rate bonds cannot be remarked to another investor), by bank letters of credit.

Level Debt Service

An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines, resulting in substantially equal debt service payments over the life of bonds.

Limited Tax Bond

A bond that has pledged to the repayment of principal and interest, certain taxes or categories of taxes, that has a limit on the rate or amount.

Liquidity

The measure of the ease or difficulty with which securities can be bought and sold in the markets. Bonds that have many buyers and sellers, or “market – makers” and a readily available price are considered highly liquid.

Long Bond

The 30-year US Treasury Bond is the longest bond issued by the government. It is also the most widely traded bond in the world. It is viewed as a benchmark in the industry and is commonly called the “long bond.”

Macaulay Duration (See Duration)

A mathematical measure (Macaulay method) to determine how quickly an investor recovers his or her investment. Bonds of similar duration will have the similar price movements for a given move in interest rates.

Management Fee

The percentage of the underwriting spread which goes to the managers of the account.
**Marketability**

Measure of the ease or difficulty with which a security can be resold in the market.

**Maturity (or Maturity Date)**

Date when the principal amount of a security becomes due and payable. An issue can have multiple maturities.

**Moral Obligation Bond**

A revenue bond that, in addition to repayment from its primary source of security, carries an implied, but not legal, obligation for a State or local government to make up shortfalls in a debt service reserve fund. Market participants recognize that failure to make good on this pledge will damage the creditworthiness of the State or local government. Many States issue bank and housing bonds backed by a State moral obligation pledge. S&P generally rates moral obligation bonds one notch lower than general obligation debt. The other rating services generally do not give much, if any, value to bonds that are credit enhanced by a moral obligation pledge.

**Municipal Bond**

A general term referring to securities issued by States and local government agencies such as cities, towns, counties and special districts. Primary features of these securities are that interest is generally exempt from federal income taxation and in many cases, State income taxation as well (in the State-issued). Due to this feature, the interest rates on municipal bonds are lower than interest rates on other types of bonds; however, when taking into account a bondholder's income taxes, they often provide a comparable or even better, rate of return.

**Municipal Notes**

Short term obligations, which include tax/revenue/bond anticipation notes (TANS/RANS/BANS) of a municipal agency that are sold in anticipation of tax receipts, an upcoming bond issue or other revenues.

**Municipal Securities Rulemaking Board (MSRB)**

The self-regulatory body of the municipal securities markets.

**Negative Covenants**

Promises contained in the bond contract, whereby the issuer obligates itself to refrain from doing certain acts. One common example of a negative covenant is a promise not to sell or encumber the project.
**Negotiated Sale**

Exclusive agreement to sell a new issue of municipal securities to a previously selected underwriter. Primary points of negotiation are the interest rate and purchase price (taking into account the gross spread or discount), which reflects the issuer’s costs of offering the securities in the market.

**Net Interest Cost (NIC)**

A method of computing interest expense to the issuer of bonds. NIC allows for premium and discount bonds (takes into consideration the costs of issuance) and represents the dollar amount of interest payable over the life of an issue, without taking into account the time value of money (which True Interest Cost (TIC) does take into account). NIC can be stated as a percentage or a total dollar amount.

**New Issue Market (Primary Market)**

A bond offering sold for the first time. It is also called the primary offering.

**Non-Callable Bond**

A bond that does not have an option to be redeemed prior to its stated maturity.

**Notes**

A security similar to a bond but with a shorter term, usually less than two years. Municipal notes often are secured by specific sources of future revenues such as tax receipts or bond proceeds.

**Notice of Redemption**

A publication of an issuer’s intention to call outstanding bonds prior to their stated maturity dates, in accordance with the bond contract.

**Notice of Sale**

A publication by an issuer describing an anticipated new offering (sold through competitive sale) of municipal bonds. It generally contains the date, time and place of sale, amount of issue, type of bond, amount of good faith deposit, basis for award, name of bond counsel, maturity schedule, method, time and place of delivery and bid form.

**Offering Circular (Official Statement)**

A document generally prepared by underwriters about an issue of securities expected to be offered in the primary market. Investors, analysts and the rating agencies may use this information and other documents to evaluate the credit quality of an issue.
**Offering Price**

The price and corresponding yield, in the case of bonds, at which an underwriter of securities offers them to investors.

**Official Statement**

Document prepared by an issuer of municipal securities that gives details of the security and financial information for an issue; much like a prospectus for stocks.

**Original Issue Discount**

A bond offered at a dollar price less than par (100%), which qualifies for special treatment under federal tax law. For tax-exempt municipal bonds, the difference between the issue price and par is treated as tax-exempt income rather than a capital gain, if the bonds are held to maturity.

**Over-The-Counter-Market**

A securities market, which is conducted by dealers throughout the country through negotiation, rather than an auction system, represented by a stock exchange. The Municipal Market is an over-the-counter-market.

**Parameters Resolution**

Formal document drafted with the parameters of the bond issue, e.g., maturity date, maximum interest rate, etc.

**Parity Bonds**

Two or more issues of bonds that have the same priority claim or lien against pledged revenues or the issuer’s full faith and credit pledge. With respect to the initial issue of bonds, called the “prior issue,” the bond contract normally provides the requirements that must be satisfied before subsequent issues of bonds, called “additional parity bonds,” may be issued.

**Par Value**

The principal amount of a bond or note that is payable at maturity. The par value is the amount on which interest payments are calculated.

**Paying Agent**

The entity responsible for the payment of interest and principal on municipal bonds on behalf of the issuer, typically a bank or trust company.
**Point**

One percent of par value. Bond prices are quoted at a percentage of $1000, so a point is worth $10 regardless of the actual denomination of a bond. A bond discounted 22 points, or $25, is quoted at 972 percent of its value, or $975 per $1,000.

**Preliminary Official Statement**

The document prepared by or for a municipal securities issuer that gives in detail the security and financial information about the issue. The Preliminary Official Statement includes all relevant material, except the interest rates and prices for the securities, and is made available to prospective investors prior to setting the rates and prices.

**Premium**

Amount above its par (face) value at which a bond sells.

**Price**

Bonds are quoted either in terms of a percentage of par value (98 bid/99 offered) or in terms of yield to maturity (7.25% bid/7.5% offered).

**Price To Call**

Price of the bond, expressed as a percent, to the Call Date, at the Call Price.

**Primary Market** (see New Issue Market)

Market, in which newly issued securities are sold. This includes the auction market for government bonds and the underwriting period for bonds that an underwriter purchases for resale to investors. (Over-The-Counter-Market for municipals.)

**Principal**

The face amount or par value of a bond, exclusive of accrued interest.

**Prior Issue**

Outstanding issue of municipal bonds. The term is usually used in the context of a refunding to denote the bonds being refinanced; sometimes, called “refunded bonds.” It is also used to denote bond issues that normally possess a first or senior lien on pledged revenues.

**Private Activity Bonds**

Along with “governmental bonds,” one of two primary categories of tax-exempt bonds established under the 1986 Tax Act. Most are subject to State volume caps and benefit non-governmental persons, e.g., IDBs, housing bonds, exempt facility bonds.
**Private Placement**

The term is used in reference to a bond sale directly to institutional investors rather than through a public offering. Some issuers require investors purchasing privately placed bonds to sign an agreement that restricts resale.

**Protective Covenants**

Agreements in the bond contract imposing duties upon the issuer, in order to protect the interest of the bondholders. Typical protective covenants relate to such items as maintenance of adequate rates, segregation of funds, proper project maintenance, records, insurance and tests that must be met to issue additional bonds for related purposes, called an “Additional Bonds Test.”

**Public Offering**

Bond sale to the general public (usually through an underwriter). The offer is usually disclosed by an Official Statement in which the terms of the financing and its structure are set forth, allowing the investor to make an informed decision about the merits of the proposed securities. In addition to public offerings, bonds are sold in limited public offerings and private placements.

**Rating**

Designation given by investors’ service indicating the relative credit quality or the strength of the ability to pay in a timely manner. Ratings exert a strong influence over interest rates.

**Redemption**

The paying off or buying back of an outstanding bond by the issuer prior to maturity by means of a cash payment. Redemption provisions are set forth in the indenture. Common types of redemption provisions include: Optional Redemption (ability to call after a stated date, usually at a premium); Mandatory Redemption (issuer required to call outstanding bonds based on predetermined schedule or otherwise provided in the bond contract); Extraordinary Optional Redemption (issuer has right to call bonds upon the occurrence of certain events such as, when excess bond proceeds exist); and Extraordinary Mandatory Redemption (usually derived from insurance proceeds after destruction of project collateral).

**Refunding Bond**

The replacement of a bond issue with a new bond issue. Usually a new bond issue will refund an outstanding issue to achieve conditions more favorable to the issuer, such as, reduced interest rates or more favorable borrowing conditions like the removal of liens. “Current Refundings” bonds must be called within 90 days of the earliest call date applicable to IDBs. “Advance Refundings” establish a procedure where an issuer refinances an outstanding bond, typically far in advance of the first call date. Proceeds of the new bonds are deposited in an escrow account to pay the debt service on the
outstanding bonds, called the “refunded bonds.” Revenues that were pledged to the outstanding bond to pay the debt service are, in turn, used to make debt service payments on the new bonds called “refunding bonds.”

**Registered Bond**

A form of ownership of a bond, where the name of the owner, as to principal and interest, is recorded on the bond certificates and on the books of the corporation or its agent. A registered bond can be transferred only by endorsement of the registered owner or its agent and must change registration.

**Repurchase Agreement**

Also called Repos, or RPs. Agreements between a buyer and seller of securities whereby the seller agrees to repurchase the securities at a stated price and stated time. Sometimes used to invest bond proceeds.

**Resolution**

Formal document drafted and adapted by governing body in a public meeting. Item on agenda of meeting. Resolution requires services of bond counsel.

**Retail Investor**

Term given by the securities industry to individual investors and sometimes, smaller companies that invest in bonds. An issuer can often get lower interest rates from retail investors vs. institutional investors.

**Revenue Bond**

Bonds payable from a specific source of revenues, which do not pledge the full faith and credit of the issuer. They also do not permit the bondholders to compel taxation or legislative appropriations of funds that are not pledged for payment of debt service. Pledged revenues may be derived from: 1) operation of the financed project; 2) companies financed, in the case of IDBs, etc.

**Rule 10B-5**

An SEC regulation which makes it unlawful to employ an devise or scheme to defraud; to make untrue statements of material fact, etc., in connection with the purchase and sale of bonds. Underwriter’s counsel typically provides a “10B-5 Opinion.”

**SEC**

Securities and Exchange Commission.

**Secondary Market**

Market for securities previously offered or sold.
**Self-Supporting Debt**

Debt to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

**Senior Lien Bonds**

Bonds with a prior claim on pledged revenues.

**Serial Bonds**

Bonds of an issue in which some bonds mature in each year over a period of years. Serials enable issuers to access the lower end of the yield curve in a positively sloping yield curve environment.

**Settlement**

Delivery of and payment for, a new issue of municipal bonds. Settlement typically occurs within 30 days after the bonds are awarded to the underwriters, which allows for printing of the bonds and completion of certain legal matters.

**Sinking Fund**

An account sometimes called a debt service reserve fund, into which the issuer makes periodic deposits. It assures timely availability of sufficient monies for payment of debt service requirements. Revenues to be deposited into the sinking fund and payments therefrom are determined by the terms of the bond contract. Often used with term bonds.

**SLGS or SLUGS**

Acronym for State and Local Government Series, SLGS are special U.S. government securities sold by the Treasury to issuers through individual subscription agreements. Interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions of the Tax Code. SLGS are commonly used for deposit in an escrow account in connection with the issuance of refunding bonds.

**Special Obligation Bonds**

A bond secured by a special tax or other source of revenue, such as a gasoline tax.

**Spread Or Gross Spread**

Income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds and the prices at which bonds are sold to the investing public. Usually expressed in points or fractions thereof or per $1,000 bonds such as $8.00 per $1,000 bonds. The Spread includes four components: expenses, management fee, takedown (largest component like a sales commission), and risk.
**Strips**

Acronym for the U.S. Treasury zero coupon program standing for Separate Trading of Registered Interest and Principal of Securities. These securities are sold at a discount and redeemed for their full face value at maturity. They are offered in amounts of $1,000 or more, and pay no interest (the interest is reinvested over the life of the security). STRIPS and zeroes are well suited to such long-term goals as college planning and retirement savings.

**Syndicate**

A group of underwriters who purchase a new issue and resell it to the public. The syndicate is organized for the purpose of sharing risks of underwriting the issue and for obtaining sufficient capital to purchase a new issue. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operation of the syndicate. There are two major types of syndication agreements: 1) Divided or Western Account, in which each member is liable only for its allocation of the bond issue and not for any unsold portion of the issue allocated to other underwriters in the syndicate; and 2) Undivided or Eastern Account, in which each member is liable for any unsold portion of an issue according to each members’ percentage participation in the syndicate.

**Taxable Equivalent Yield**

The interest rate that must be received on a taxable security to provide the holder with the same after-tax return as earned on a tax-exempt (municipal) security.

**Tax-Free Bonds**

Also known as municipal bonds. The interest on these bonds is exempt from federal income taxation, and in many cases, state and possibly local income taxation (e.g., NY).

**Tefra Hearing**

“Tax Equity and Fiscal Responsibility Act” of 1982. Public hearing mandated by the IRS to provide an opportunity for interested parties to express their views either orally or by submitting written comments prior to the Hearing on the issuance of bonds and the nature of the improvements and projects for which the bond funds will be allocated.

**Term Bond**

A bond issued with a single maturity. Corporate term bonds typically have no provision for a periodic redemption of principal; in other words, the entire amount falls due at the same time. Municipal Term Bonds usually include a sinking fund for the periodic redemption of a portion of the term bond.
**True Interest Cost (TIC)**

A method of computing the issuer’s borrowing cost. Interest cost is defined as the rate, compounded semiannually, necessary to discount the amounts payable on the respective principal and interest maturity dates, to the purchase price received for the bonds, i.e., an internal rate of return calculation. Unlike NIC, TIC takes into account the time value of money. Although many analysts suggest that competitive sale bids should be awarded on the basis of the lowest TIC bid, most are awarded based on the lowest NIC bid.

**Total Return**

Return on investment, accounting for capital appreciation, dividends or interest, and individual tax considerations. The total return is usually adjusted for present value and expressed on an annual basis.

**Treasury Bills (T-Bills)**

U.S. Government security with a maturity of one year or less. T-Bills are purchased at a discount to the full face value and the investor receives the full value when they mature. The difference or “discount” is the interest earned. T-Bills are issued in denominations of $10,000 and $1,000 increments thereafter.

**Treasury Bonds**

Long-term U.S. Treasury obligation that matures anywhere from 10 to 30 years. Interest is paid semiannually and they can be easily purchased in minimum denominations of $1,000 or multiples thereof.

**Treasury Notes**

U.S. Government obligations available for terms of 1 to 10 years. Interest is paid twice a year, or semiannually, and they can be purchased in denominations of $1,000 or multiples thereof.

**Trustee**

A bank designated by an issuer of bonds to act as the custodian of funds and official representative of the bondholders. Trustees are appointed to assure that bondholders have representation to enforce the contractual obligations of the issuer as provided for in the indenture.

**Trust Indenture**

Contract between the issuer of municipal securities and a trustee, for the benefit of bondholders. The trustee administers the funds or property specified in the indenture, in a fiduciary capacity on behalf of the bondholders. The trust indenture, which is generally part of the bond contract, establishes the rights, duties, responsibilities and
remedies of the issuer and trustee and determines the exact nature of the security for the bonds.

**Two-Percent Rule**

The percentage, as defined in the 1986 Tax Act, of private activity bond proceeds that may be used to finance costs of issuance (gross spread, costs of bond counsel, rating, trustee, printing, etc.). The Code also permits financing certain credit enhancement fees in addition to the 2% allowed for cost of issuance.

**Underwriter**

An investment bank or group of banks, which agree to purchase an entire security issue for a specified price, usually for resale to others. The underwriter may acquire bonds either through competitive or negotiated sales.

**Underwriter’s Counsel**

An attorney or law firm retained to represent the interests of the underwriters in connection with the purchase of a bond issue.

**Unlimited Tax Bond**

A bond that is secured by a pledge of taxes, usually property taxes, that are not limited in anyway as to the amount that can be collected to pay the principal and interest on a bond.

**Variable Interest Rate**

A long-term bond for which the interest rate is adjusted periodically according to a pre-determined formula. Variable rate bonds can adjust the interest rate as often as daily, or as infrequently as annually.

**Volume Ceiling or Limitation**

Federal dollar volume restrictions on the amount of qualified Private Activity Bonds that can be issued in a State annually. For calendar year 2013, the amounts used to calculate the State ceiling is the greater of: 1) $95 per resident; or 2) $291,875,000 per year.

**Warrant**

Security, generally short-term in nature issued by a municipality and used in the payment of bills.
When Issued

A bond issue that has been offered for sale, but has not yet been delivered by the issuer, is considered to be trading on a “when issued” basis. Also known as “when as, and if issued.”

Yield

Net annual percentage income from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or discount.

Yield To Call

Yield to Call is the yield on the bond to the Call Date, at the Call Price.

Yield to Maturity

A yield concept designed to give an investor the average annual yield on a security. It is based on the assumption that the security is held by the investor until final maturity and that all interest received can be reinvested at the yield to maturity.

Zero Coupon Bond

Zero Coupon Bonds do not pay interest prior to maturity. The investor receives one payment – at maturity; however, interest is accrued and compounded semi-annually at the original interest rate to maturity. Zero Coupon Bonds are often callable at their Accreted Value on a particular Call Date.