RESOURCES
TYPES OF RESOURCES

G. INVESTMENTS CONTRACTS

Other common investment vehicles include stocks and bonds and contracts refer to promissory notes, loans and property agreements.

1. Stocks

Shares of stock represent ownership in a business corporation. Their value shifts with demand and may fluctuate widely. The following guidelines apply to all stocks, including preferred stocks, warrants and rights, and options to purchase stocks.

- Absent evidence to the contrary, assume that each owner owns an equal share of the value of the stock.

- Absent evidence to the contrary, assume that the owner of shares of stock can sell them at will at current value.

- Broker fees do not reduce the value that stocks have as resources.

Verify ownership by viewing the stock certificate or most recent statement of account (including dividend account) from the firm that issued or is holding the stock. Document the file with a photocopy. If the individual does not have this documentation, have him/her obtain a statement from the firm. Provide assistance as needed.

a. Publicly Traded Stock

The CMV of a stock is its closing price on the last business day of the preceding month.

The values of over-the-counter stocks are shown on a "bid" and "asked" basis. For example, "18 bid, 19 asked." Use the bid price as the CMV.

The "par value" or "stated value" shown on some stock certificates is not the market value of the stock.

RESOURCES

TYPES OF RESOURCES

The closing price of a stock on a given day can usually be found in the next day's regular or financial newspaper.

As a last resort, contact a local securities firm. Record the appropriate closing price and the source of the information on a Record of Contact.

b. <u>Stock That Is Not Publicly Traded</u>

The stock of some corporations is held within close groups and traded very infrequently. The sale of such stock is often handled privately and subject to restrictions. As a rule, it cannot be converted to cash within 20 working days.

The burden of proof for establishing the value of this kind of stock is on the individual. The preferred evidence is a letter or other written statement from the firm's accountants giving their best estimate of the stock's value and the basis for the estimate, e.g.:

- most recent sale,
- most recent offer from outsiders,
- CMV of assets less debts on them,
- cessation of activity and sale of assets,
- bankruptcy, etc.

Keep the statement or a photocopy of it in the file.

c. Common Stock

Common stock usually is held in the form of a certificate registered in the owner's name. Dividends usually are paid quarterly and may vary with company earnings.

- "Listed" stocks are those listed on the NYSE, AMEX, or on one of the regional exchanges such as Boston, Philadelphia, or Chicago.

- Over-the-counter (OTC) stocks, which include "penny" stocks, are not listed on the major exchanges. They usually are reported in the National Association of Security Dealers Automated Quotations (NASDAQ) system.

d. Preferred Stock

Preferred stock receives preference with respect to dividends and, in case of bankruptcy, the distribution of assets. Preferred stock dividends:

- are paid at a fixed rate;

- must be paid before common stock dividends can be paid; and

- must be made up later, when not paid timely, whereas common stock dividends may be skipped.

RESOURCES

TYPES OF RESOURCES

e. Reading Stock Quotations

Stock tables vary little from publication to publication. The following quote is typical, showing from left to right:

- the standard abbreviation of the name of the company (Philadelphia Electric in this case), followed by "pf" for preferred stock on the second line;
- the dividend amount;
- the price-to-earnings ratio;
- sales volume, in thousands;
- the day's high, low, and closing prices (22 3/4 = $22.75); and
- the change in price from the previous day.

NAME	DIV	PE	SALES	HIGH	LOW	LAST	CHG
Phil El	2.20	9	4323	22 7/8	22 5/8	22 3/4	- 1/8
Phil E pf	4.30	-	50	42 3/4	42 3/4	42 3/4	-

2. Options

An option is the right to sell or buy something at a specified price by a specified date. The "something" is usually stock, but there are options on interest rates, stock market indexes, commodity futures, and other items as well. An option to sell is call a "put." An option to buy is a "call." The value of an option depends on:

- the length of the contract (3, 6, or 9 months);

- the difference between the CMV of the item and the price at which the put permits it to be sold or the call permits it to be bought; and

- the volatility of the item (how much its CMV is expected to fluctuate).

a. Buying & Selling Options

Options can be sold through a broker. If the CMV of an item goes up in relation to a call price, the value of the option increases. If it goes down, the value of the option decreases. The reverse is true for a put.

b. Reading Option Quotations

There are several exchanges across the country that list option prices for about 300 stocks; the Chicago Board of Options Exchanges (CBOE), AMEX, the Philadelphia Stock Exchange, and the Pacific Stock Exchange. Transactions on these exchanges are listed in financial publications and many newspapers.

Although a stock option contract controls 100 shares of stock, options are quoted on the price per share. If a contract sells for $300, the cost per share is $3. Options come due and are quoted for each January, April, July and October.

The following example is a typical options quotation and shows, from left to right:

- the name of the stock (Tandy), the expiration month (April) and per-share price of the option ($30) for a put option on line 2);

- the number of contracts sold (996 on line 2);

RESOURCES
TYPES OF RESOURCES

- the high, low, and closing prices for a contract ($56.25, $25, and $37.50, respectively, on line 2); and

- the net change in the value of the contract ($6.25).

Name, Expiration Date, and Price Change	Sales	High	Week's Low	Last	Net
Tandy Apr. 30	1317	4 3/4	2 3/4	3 1/8	-1/8
Apr. 30p	996	9/16	1/4	3/8	-1/16

3. Mutual Fund Shares

A mutual fund is a company whose primary business is buying and selling securities and other investments. Shares in a mutual fund represent ownership in the investments held by the fund.

The term "mutual fund" encompasses a wide range of investments. Basically, it is a pool of assets (stocks, bonds, etc.) managed by the investment company. A mutual fund represents ownership interest in this pool as opposed to a particular stock or bond.

The development guidelines for stocks also apply to mutual fund shares. Many newspapers contain a separate table showing the values of funds not traded on an exchange.

a. <u>Growth Funds</u>

The primary objective of these funds, also known as performance funds and hedge funds, is aggressive long term growth of investment rather than current income. Dividends typically are low.

b. <u>Income Funds</u>

The objective is current income through high dividends and interest, as opposed to capital gains.

c. Balanced Funds

The objective is a balance of growth and income.

d. Municipal Bond Fund

The fund invests in tax-exempt bonds and the interest is passed along to holders on a tax-exempt basis.

e. Money Market Funds

The fund invests in conservative vehicles such as T-Bills and bank certificates. The minimum investment usually is $1,000, but may be less. Income may fluctuate daily based on interest rates. Money market funds often have a check-writing feature.

f. Buying & Selling Mutual Funds

"Load" funds are sold through a broker who collects a commission. "No-load" funds usually are purchased directly from the fund (no commission) and often are advertised in newspapers and magazines.

g. Reading Mutual Fund Quotations

The format of the following table is typical of those shown in newspapers and financial publications, showing from left to right:

- the names of the funds available for each management group (in this case, four funds managed by the Fund Founders Group);

- the high and low values for the preceding 52-week period;

RESOURCES
TYPES OF RESOURCES

- the most recent closing price;

- the change over the previous week; and

- the fund's income and capital gains totals for the previous 12 months.

Fund Founders	52 Weeks				Week's	Capitol
Group	H	L	Close	Change	Income*	Gains
Growth n.	8.77	6.28	6.37	-0.08	0.157	2.505
Income n.	15.18	13.72	13.87	+0.01	1.273	0.232
Mutual	11.56	9.74	9.98	-0.07	0.426	0.706
Special n.	37.11	22.88	23.54	-0.13	1.900	1.395

n = no-load
* = last 12 months

4. Municipal, Corporate & Government Bonds

A bond is a written obligation to pay a sum of money at a specified future date. Bonds are negotiable and transferable.

Municipal, corporate, and government bonds are negotiable and transferable. Therefore, their value as a resource is their CMV. Their redemption value, available only at maturity, is immaterial.

Development and documentation instructions for stocks also apply to bonds.

a. <u>Corporate Bonds</u>

Corporate bonds are the obligation of a private corporation. Corporations sell corporate bonds to raise capital. There are two (2) types:

- **debentures**, which are backed by the issuer's full faith and credit; and

- **mortgage backed** bonds, which are backed by a lien on the company's assets.

RESOURCES
TYPES OF RESOURCES

Corporate bonds are issued in 2 forms:

- **registered**, which pay interest to their registered owner; and

- **bearer** or **coupon** bonds, which pay it to whomever holds the bond.

Convertible bonds are debentures that can be exchanged for a specified number of shares of a company's stock. Junk bonds are high risk bonds.

A UIT is a package of bonds in a portfolio. One can buy shares of the package for $1 to $1,000 per share with a minimum investment of $750 to $5,000, depending on the trust. The interest rate usually is fixed at purchase and does not change. Units usually are sold or redeemed through the trust sponsor.

Zero coupon bonds usually are issued by corporations. They do not pay current interest; accrued interest is paid at maturity. The U. S. Government does not issue zero coupon bonds directly. However, see TIGER and CATS (U. S. Securities).

Corporate bonds usually pay a fixed rate of interest for a fixed period of time (annually, semi-annually or quarterly).

RESOURCES
TYPES OF RESOURCES

b. Municipal Bonds

Municipal bonds are to city, county and State governments and authorities what corporate bonds are to corporations. They are exempt from Federal taxes and often are exempt from State and local taxes as well. Most municipal bonds are one of two general types:

- general obligation bonds, which are backed by the full faith and credit of the issuing municipality and supported by the taxing power; and

- revenue bonds, which are backed by the project being financed and the revenue or user fees it generates.

Other types of municipals are; limited-tax bonds, anticipation notes, industrial development bonds, and life-care bonds.

c. Government Bonds/U. S. Securities

Government bonds, as distinct from a U. S. Savings Bond, is a transferable obligation issued or backed by the Federal Government.

T-Bills are short-term obligations that require a minimum investment of $10,000. Certificates are not issued for T-Bills; they are registered in book form at the Treasury Department and receipts are provided as proof of purchase. T-Bills can be sold before maturity.

Treasury notes and bonds are similar to T-Bills but have longer maturities and a lower minimum investment requirement. They have been registered in book entry form since July 1986 but were sometimes issued as bearer bonds before then.

Tiger and Cats are Government securities issued with a zero coupon concept. The broker removes the interest coupons from the security and sells it at a big discount with a long maturity. Accrued interest is then paid at maturity. These bonds can be sold before maturity.

Some of the Federal agencies with charters to issue securities are:

- the Federal Home Loan Bank Board;
- the Federal Home Loan Mortgage Corporation (FREDDIE MAC);
- The Export-Import Bank; and
- the Government National Mortgage Association (GINNIE MAE).

Minimum investment requirements range from $1,000 to $25,000.

d. Buying & Selling Bonds

Bonds usually are bought and sold through brokers, securities dealers, or other investors. They may sell for more or less than their face value or purchase price, depending on a variety of factors.

e. Reading Bond Quotations

The following is a typical bond quotation, showing from left to right:

- the name of the issuer (AT & T);
- the bond's nominal or coupon rate (3 7/8 percent);

RESOURCES
TYPES OF RESOURCES

- the last two digits of the year in which the bond matures (1990);

- the current yield (5.6 percent);

- the number of bonds traded during the year (54,000);

- the highest, lowest, and last price of the bond for the period covered by the quotation (bond prices are quoted on a par of 100, so the last price of 69 1/4 equals $692.50).

- the net change in the bond price:

ISSUE	CURRENT YIELD	SALES 1000'S	HIGH	LOW	CLOSE	CHG
AT&T 3 7/8, 90	5.6	54	69 3/4	69 1/4	69 1/4 - 3/8	

5. U. S. Savings Bonds

U. S. Savings Bonds are obligations of the Federal Government. Unlike other government bonds, they are not transferable; they can only be sold back to the Federal Government.

U. S. Savings Bonds cannot be redeemed for six months after the issue date specified on the face of the bond.

The individual in whose name a U. S. Savings Bond is registered owns it. The Social Security Number shown on a bond is not proof of ownership.

The co-owners of a U. S. Savings Bond own equal shares of the redemption value of the bond.

U. S. Savings Bonds are not resources during the 6-month mandatory retention period. They are resources (not income) as of the first moment of the seventh month.

RESOURCES
TYPES OF RESOURCES

Verify ownership by viewing and photocopying any bonds in which a client or spouse has an ownership interest. Use the name(s) shown on the bond to determine ownership.

Use the Table of Redemption Values for U. S. Savings Bonds to determine value or obtain the value by telephone from a local bank and record it on a Record of Contract. The bank will need the series, denomination, date of purchase and/or issue date.

Exception: After the 6-month retention period, the redemption value of a series H or HH bond is its face value.

Physical possession of a U. S. Savings Bond is a requirement for redeeming it. If a person other than the client/spouse will not relinquish possession of a bond, it is not an available resource. A transfer of assets may exist unless a successful rebuttal of ownership is offered.

6. Promissory
or **Notes, Loans,**
property) **& Property**
loan, or **Agreements**

The context of the instructions in this section is the client
spouse as the creditor (lender of money, seller of
and, therefore, as the owner of the promissory note,
property agreement.

A promissory note is a written unconditional agreement whereby one party promises to pay a specified sum of money at a specified time (or on demand) to another party. It may be given in return for goods, money loaned, or services rendered.

A loan is a transaction whereby one party advances money to or on behalf of another party, who promises to repay the lender in full, with or without interest. The loan agreement must be enforceable under State law and be in writing. A written loan agreement is a form of promissory note.

RESOURCES

TYPES OF RESOURCES

A property agreement is a pledge or security of particular property for the payment of a debt or the performance of some other obligation within a specified period. Property agreements on real estate generally are referred to as mortgages but also may be called land contracts, contracts for deed, deeds of trust, and so on. Personal property agreements-e.g., pledges of crops, fixtures, inventory, etc.-are commonly known as chattel mortgages.

When an individual enters into a contract for the sale of real estate, he or she owns two items until the settlement of the sale is completed; the real estate and the contract. The real estate is not a resource because the individual cannot sell it. The contract is a property agreement whose status and value as a resource must be determined in accordance with this section.

a. SSI Policy

Assume that the value of a promissory note, loan or property agreement as a resource is its outstanding principal balance unless the individual furnishes reliable evidence that it has a CMV of less than that (or no CMV at all).

Obtain a copy of the agreement for the file.

Obtain evidence of the outstanding principal balance if including the original balance in countable resources causes ineligibility.

If including the outstanding principal balance in countable resources causes ineligibility, inform the individual that we will use the outstanding principal balance in determining resources unless he or she submits:

- evidence of a legal bar to the sale of the agreement; or

RESOURCES

TYPES OF RESOURCES

- an estimate from a knowledgeable source, showing that the CMV of the agreement is less than its outstanding principal balance.

Knowledgeable sources include anyone regularly engaged in the business of making such evaluations: e.g., banks or other financial institutions, private investors or real estate brokers. The estimate must show the name, title, and address of the source.

b. Liberalized Policy

For MAO Coverage Groups subject to liberalized resource policy, effective 10-01-89, promissory notes, loans and property agreements can be excluded as a resource if the note, loan or agreement produces at least a 6% net annual return of the principal balance. The income produce must be received by the client/spouse and counted as income in order for the exclusion to apply.

NOTE: All Promissory Notes, Loan and Property Agreements (SSI or Liberalized) must be determined to be actuarially sound in the same manner as annuities (outlined in OBRA-93 Trust/Transfers of Assets policy). Even though the 6% rule is in effect that sets a minimum acceptable payment when compared to the principal balance, an additional step is required to determine if the client (or spouse) will reasonably be expected to receive the full payoff of the note or loan during his/her lifetime. As with annuities, the average number of years of life expectancy remaining (based on the Annuity Life Expectancy Charts) must coincide with the payout of the Promissory Note or Loan. If the note or loan is not acceptable, then the amount that is not expected to be paid out is treated as a transfer of resources the same as it is for annuities.

RESOURCES
TYPES OF RESOURCES

A "loan" to a relative that is immediately declared "uncollectible" isn't a loan at all; it's a transfer of assets for less than fair market value. A financial institution that has no direct interest in the original transaction cannot verify that the "loan" is uncollectible. An uncollectible loan must be documented in the form of a legally binding and enforceable contract with the rate of interest specified and a repayment schedule. Documentation is required on a regular basis to verify that the loan is being required by the contract. If the "loan" isn't being repaid, the lender is required to take legal action against the lendee to enforce the contract requirements.

As with annuities, a balloon payment does not meet the standards of being actuarially sound. The payments must be of uniform rate, principal and interest, during the life expectancy of the individual and no cancellation of the balance upon the death of the lender.

Funds used to purchase a promissory note, loan, or mortgage that are not actuarially sound will be considered a transfer based on the outstanding balance due as of the date of the application for long-term care.