

MISSISSIPPI DIVISION OF MEDICAID

Eligibility Policy and Procedures Manual

303.05 MUNICIPAL, CORPORATE AND GOVERNMENT BONDS

A bond is a written obligation from a state or locality (municipal bond), a private corporation (corporate bond) or the federal government (government bond) to pay a sum of money at a specified future date.

Treatment
<ul style="list-style-type: none">• These bonds are negotiable and transferable.• Their value as a resource is their CMV. Their redemption value, available only at maturity, is immaterial. <p>Obtain a copy of the bond and verify the value with the bond issuer.</p>

303.05.01 CORPORATE BONDS

Corporate bonds are the obligation of a private corporation. Corporations sell bonds to raise capital. There are two type of corporate bonds:

- **Debentures** are backed by the issuer's full faith and credit
- **Mortgage-Backed** bonds are backed by a lien on the company's assets

Corporate bonds are issued in two forms:

- **Registered** bonds pay interest to their registered owner
- **Bearer or coupon** bond pay interest to whomever holds the bond

Convertible Bonds - These bonds are debentures that can be exchanged for a specified number of shares of a company's common stock.

Junk Bonds – These are high risk bonds.

UIT (Unit Investment Trust) – A UIT is a package of bonds in a portfolio. One can buy shares of the package for \$1 to \$1000 per share with a minimum investment of \$750 to \$5000 depending on the trust. The interest rate is usually fixed at purchase and does not change. Units usually are sold or redeemed through the trust sponsor.

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Zero Coupon Bonds – These bonds are usually issued by corporations. They do not pay current interest; accrued interest is paid at maturity. The US government does not issue zero coupon bonds directly. However, see TIGER and CATS (US Securities) discussed below.

Interest

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

303.05.02 MUNICIPAL BONDS

Municipal bonds are to city, county and state governments 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 of two types:

- **General Obligation Bonds** are backed by the full faith and credit of the issuing municipality and supported by the taxing power; and
- **Revenue Bonds** 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.

303.05.03 GOVERNMENT BONDS/US SECURITIES

A government bond, distinct from a US Savings Bond, is a transferable obligation issued or backed by the federal government. Examples are:

- **Treasury 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 they have longer maturities and lower minimum investment requirements. They have been registered in book form since July 1986, but were sometimes issued as bearer bonds before then.