

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.

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- **TIGER (Treasury Investors Growth Receipt) and CATS (Certificate of Accrual on Treasury Securities)** 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.
- **Federal Agency Securities** - Some Federal Agencies have charters to issue securities. Minimum investments range from \$1,000 to \$25,000. Some of these federal agencies are:
 - The Federal Home Loan Bank Board,
 - Federal Home Loan Mortgage Corporation (FREDDIE MAC),
 - The Export-Import Bank and
 - The Government National Mortgage Association (GINNIE MAE).

Buying and Selling Bonds

Bonds are usually 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.

Reading Bond Quotations

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

- The name of the issuer (AT&T)
- The bond's nominal or coupon rate (3.78%)
- The last two digits of the year in which the bond matures (1990);
- The current yield (5.6%);
- 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 69¾ equals \$692.50);
- The net change in the bond price.

ISSUE	CURRENT YIELD	SALES 1000'S	HIGH	LOW	CLOSE	CHANGE
ATT 3 7/8, 90	5.6	54	69 ¾	69 ¼	69 ¼	-3/8

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Treatment
<p>The government securities discussed above are countable resources.</p> <ul style="list-style-type: none">• To verify ownership, view and copy the receipt of purchase.• Obtain the value from the issuer.