



Municipal Bond Terms

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Accrued Interest

A currently unpaid amount of interest that has accumulated since the last payment on a bond or other fixed-income security.

Ad Valorem Tax

Translated as “according to value,” it is a levy imposed by a taxing authority according to the assessed value of a good, service, or property.

Advanced Refunded Bonds

Newly issued bonds used to pay off previously issued bonds before they are callable. As they usually have lower interest rates than the refunded bonds, these bonds allow issuers to take advantage of declining interest rates before the optional redemption becomes effective.

Amortization of Debt

A continual paying down of bond principal through regular periodic payments, enabling a loan to be paid off by its maturity.

Arbitrage

Generating a profit by taking advantage of price differences of similar or related financial instruments in multiple markets or various forms.

Assessed Valuation

The practice of assigning a monetary value to an asset for the purpose of levying taxes used by government municipalities.

Authority or Agency

An arrangement in which an agent acts as a third party overseeing the interactions of a buyer and seller and charging a commission for his duties.

Authorizing Ordinance

A lawfully passed regulation allowing a government to issue bonds to fund a particular project.



Average Life

An estimated amount of time for a debt obligation to be repaid in principal, usually met through amortization or sinking fund payments.

Balloon Maturity

A repayment schedule characteristic of bonds without a sinking fund provision that have a significant increase in amounts due at a specific time, usually occurring closer to if not on, the final maturity date.

B.A.N. (Bond Anticipation Note)

A short-term interest bearing bond issued when proceeds are expected from a bond issuance. These bonds are issued by corporations and municipalities and are paid off by the subsequent anticipated note.

Base Point (Basis Point)

A value that measures differences between yields of different fixed income securities or changes in yield in the same security; it is quoted as one-hundredth of a percent of yield as these changes are usually very small amounts.

Bearer Bond

An bond obligation which makes interest payments when coupons attached to the bond are presented/submitted for payment. Rarely if ever used anymore.

Bid

The most a buyer is prepared to pay for a specific security at a given time.

Note

A security with a term to maturity lasting longer than a bill, but shorter than a bond, thus requiring a borrower to repay a specified amount at a negotiated interest rate on demand.

Bond

An interest bearing debt instrument allowing an entity to take out a loan for a predetermined time period and interest rate with the obligation to pay interest and repay principal amount at maturity.

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Bond Counsel or Bond Approving Attorney

Attorney who represents a bond issuer and certifies that the issuance is legally binding and that interest is either taxable or tax-exempt.

Bond Fund (Tax-Exempt)

A mutual fund or unit investment trust that invests a majority of its assets into bonds.

Bond Insurance

Protects a bondholder from payment default by insuring timely interest and principal payments if the issuer defaults on its obligation.

Bond Premium

An original issue premium. The amount a newly issued bond is priced above par.

Book Entry

Securities issued in electronic form instead of paper certificates.

Broker

An individual that acts as an intermediary between buyers and sellers and executes orders requested by the investor.

Callable bond

A bond that is eligible to be redeemed by the issuer prior to its scheduled maturity date under terms agreed to at the time of the issuance.

Certificates of Participation (COPs)

A bond obligation incurred by a municipality that is secured by the issuers ability to appropriate debt service payments on an annual basis. They lack the legal protections of General Obligation bonds, but have a lower hurdle to issue.



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Conduit Bonds

A bond issued by a specialized authority or agency on behalf of a borrower (known as the obligor who is solely responsible for repayment) who may lack the expertise to knowledgeably undertake a large financing.

Coupon

The stated interest payment, determined when a bond is issued and paid in specified terms.

Coupon Rate

The interest rate of a bond expressed as a percentage of the principal, or face value, of a bond.

Covenant

A section of a contract that allows or prohibits a party from performing certain actions, usually imposed on an issuer by the bonds investors.

Coverage

A ratio expressing by how many times the funds available for debt service “covers” the amount owed for debt service for a particular time period.

Current Yield

The current rate of return of an investment, calculated by dividing the annual interest on a bond by its current market price.

Dated Date (DTD)

The day on which a bond’s interest begins to accrue.

Dealer

A party that is willing and able to either buy or sell securities from their own account.

Debt Limited

The maximum amount of debt that general obligation bond issuers are able to either issue or have outstanding at a given point in time.



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Debt Ratio

A ratio that expresses how much a company relies on debt to finance its assets, and is calculated by dividing a firm's debt capital by its total assets.

Debt Service

The amount of both interest and principal that a bond issuer owes to bondholders in a specific time period.

Debt Service Reserve Fund

A reserve fund backing a bond issue that is only accessible if a debt service payment is not made in full by the issuer.

Default

The inability to fulfill all obligations of an agreement by failing to make the required interest and principal payments when due. Sometimes called a cash default to differentiate it from a technical default.

Defeased Bonds

Bonds which have been secured by another type of asset (usually U.S. Treasury or Agency bonds) and are no longer considered part of the issuer's debt.

Delinquent Taxes

Property taxes that remain unpaid on or after the date that a penalty for nonpayment had previously been agreed upon.

Delivery

A legal transfer performed in order to fulfill a contract in which a commodity is presented to and received by the contract holder.

Denomination

The stated face value of certain financial instruments including currency notes, coins and securities.

Direct Debt

The amount of debt a unit of government has accumulated in its own name or assumed through a takeover.



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Discount Bonds

A bond issued, or currently trading in the secondary market, for a price less than its face value.

Dollar Bond

A municipal bond that is traded in terms of a specific dollar price instead of its yield to maturity.

Double-Barreled Bond

A municipal bond whose cash flows secured by a source of municipal revenue and further backed a tax pledge.

Escrow Fund

A fund that contains an accumulated amount of money that can only be used to pay debt service.

ETM (Escrowed to Maturity)

Bonds that are backed by U.S. Treasury or Agency bonds as collateral, typically as part of a refunding.

Feasibility Study

A professional judgment of whether or not a proposed development will meet the revenue goals of a project developer.

Financial Advisor

In public finance a financial advisor is a professional who advises a municipality about an upcoming bond issuance, but does not provide underwriting services.

Fiscal Agent

A trust company that handles matters for a corporation under a corporate trust agreement.

Fiscal Year

The 12 month period (not always necessarily beginning in January and ending in December) for which a company prepares its annual budget and reports results.



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Flow of Funds

A statement specifying the priorities for which the revenues securing municipal bonds will be used.

Full Faith and Credit

A full commitment by a government entity to pay interest and principal on a debt.

General Obligation Bond (G.O.)

A municipal bond supported by full faith and credit and secured by the taxing power of the municipality issuing it.

General Property Tax

A tax levied on real estate and personal property.

Gross Debt

The sum or total amount of a municipality's outstanding debt obligations.

Gross Revenues

All annual receipts of a revenue bond issuer before the payment of most expenses; calculated by subtracting revenue minus the cost of good sold.

Indenture of Trust

A document explaining the terms of a bond offering, the rights of the bondholder, and the obligations of the issuer.

Industrial Development Bond (IDBs)

A type of municipal bond that raises funds to help finance private business projects. Despite being privately owned, these bonds are still able to accumulate tax revenue for the government and are allowed to be issued tax-free within certain restrictions.

Intermediate Range

Bonds with a yield to maturity between 5 and 15 years.

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Investment Banker

An individual who serves as an agent for corporations or municipalities in the process of their sale of new securities to the public. He or she is responsible for the origination, underwriting, and distribution of new issues.

Issuer

A corporation or municipality that offers securities for sale to investors.

Investment Grade

A particular level or credit rating for bonds that is characterized as carrying a lower amount of risk to investors. Assigned by one of the three major rating agencies: Fitch, Moody's, and Standard & Poor's.

Junk Bond

A bond characterized as having both a high yield and high risk, which is usually non-investment grade.

Joint Powers Authority (JPA)

An entity formed when two or more entities consolidate to construct a joint-use facility while maintaining the same amount of bonding authority and taxing ability.

Lease-Rental Bond

A bond whose principal and interest are payable from rental payments from a lessee.

Legal Opinion

A formalized written opinion by a bond counsel that an issue of bonds was both duly approved and issued.

Level Debt Service

Graduated interest and principal payments structured to keep annual debt service payments approximately equal while simultaneously allowing for full amortization of principal by the final maturity.



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Lien

A legal instrument used to secure a property as collateral against a loan.

Limited Tax Bond

A municipal bond that is similar to a general obligation bond in that it is secured by the full faith of the government issuer, but is only backed by a certain percentage of revenue from a specific tax.

Maximum Annual Debt Service

The largest amount of interest and principal payments that an issuer of a revenue bond is scheduled to have due in any upcoming fiscal year.

Mortgage Revenue Bond

A municipal, tax-exempt bond that is used for the purpose of financing both restoration and construction of homes exclusively for first-time homebuyers.

Municipal Securities Rulemaking Board (MSRB)

An industry sponsored self regulatory agency, the MSRB oversees and establishes standards for securities, bonds and notes issued by municipalities.

Net Bonded Debt

The amount by which G.O. debt exceeds self-supporting G.O. debt and sinking fund accumulations.

Net Interest Cost (NIC)

A method of computing overall interest costs to a bond issuer.

Net Revenue Available for Debt Service

The amount by which gross operating revenue of a particular project exceed the operating and maintenance expenses, but is exclusive of depreciation and bond principal and interest.



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Official Statement (OS) or Offering Circular (OC)

Published by the issuer of a municipal bond describing both the bond and the issue.

Original Issue Discount

A primary market bond that initially sells for less than par value.

Overlapping Debt

Debt that municipalities residents owe to other taxing authorities in the same geographical footprint. For example, a county's outstanding debt would overlap the debt being issued by a school district.

Par Value

The amount of principal that will be returned to bondholders at the bonds maturity.

Parity Bonds

Bonds that are similar in terms of their requirements to be paid from their pledged revenues.

Paying Agent

An agent that acts as a third party on behalf of the issuer to make principal and interest payments to bondholders.

Premium

The amount by which the sale price of a bond exceeds its par value.

Price to Call

The price at which a bond is eligible to be redeemed by the issuer and is determined at the time of the sale.

Primary Market

This is the market where new securities and issues are sold directly from the issuer to investors.



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Principal

The amount borrowed by an issuer that does not include interest.

Put Bond

A specific type of bond that allows the bondholder to redeem the bond at a predetermined price at a time prior to its maturity.

Qualified Legal Opinion

A document regarding a municipal bond offering published by a bond counsel that states if the bond qualifies under legal and regulatory standards and whether or not it is valid and enforceable.

RANs

Revenue Anticipation Notes: Shorter term municipal bonds issued with anticipation of future revenues.

Rate Covenant

A commitment made by a revenue bond issuer that establishes a minimum level of debt service coverage that must be generated each fiscal year.

Ratings

An assessment of the credit worthiness of a bond in terms of its safety and quality based on the issuer's financial condition.

Red Herring

A notice that the SEC is still in the process of reviewing a document and it is still subject to change, also known as preliminary prospectus.

Redemption

The return of an investor's principal on a bond either at or before the bond's maturity.

Refunding Bond

The practice of issuing new bonds for the sole purpose of retiring bonds that are currently outstanding.



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Registered Bond

A bond that has the name of its owner printed on the certificate and can only be transferred with the owner's agreement.

Repo

The agreement between an issuer and a buyer of securities in which the issuer agrees to repurchase the securities at a specified time and price.

Revenue Bond

A municipal bond issued for the purpose of funding a public works project that is funded exclusively by the revenues generated from that project.

Secondary Market

A market different from the primary market in that investors purchase securities from other investors instead of from an issuer.

Security

The collateral or legal powers a bond issuer has attached to a bond offering to ensure payment.

Self Supporting Bonds

Bonds that are intended to be paid off with the revenues generated by the project being financed.

Serial Bond

Multiple bonds issued simultaneously possessing different maturity dates.

Short Term

Financial activity occurring in less than one fiscal year.

Sinking Fund

An escrow account a bond issuer makes scheduled payments into over an extended period of time for the purpose of retiring term bonds.



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Sinking Fund Schedule

A schedule of expected amortization used by an issuer to retire debt by way of a sinking fund account.

Special Assessment Bonds

Revenue bonds that are repaid by the collection of taxes from those benefitting from the funded project.

Super Sinker

A term bond which accrues sinking fund pre-payments before other term bonds of the same issue.

Swap

The practice of trading securities for the purpose of adjusting the maturity date, improving the quality of issues, or resulting from a reevaluation of investment objectives.

Swap Contract

A derivatives contract that allows holders to hedge against a foreseen risk by agreeing to pay or receive certain payments against a counterparty who is seeking to hedge or profit from the other side of the transaction.

Tax Anticipation Note (TAN)

Short-term debt that is issued in anticipation of future tax collections.

Taxable Equivalent Yield

The equivalent yield of a taxable bond that a tax-exempt municipal bond has when the bondholder's effective tax rate is taken into account. It is calculated by dividing the muni bond's current yield by the remainder of one minus the holder's effective tax rate.

Tax Allocation Bond

A bond used to fund a redevelopment project with additional taxes generated from the increases in assessed value of the property being used to amortize the bonds. Frequently called Tax Increment Finance bonds.



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Tax-exempt Bond

A municipal bond that does not require the payment of federal income taxes on its coupons.

Technical Default

The inability of a bond issuer to satisfy all of the terms of a bond agreement, but otherwise has not missed a debt service payment.

Tender

To return a bond to the trustee either through a solicitation to buy or because of a redemption.

Term Bond

Bonds of the same issue that comprise a single maturity date.

Territorial Bonds

Securities issued by U.S. territories that are mandated by Congress to be exempt of all federal, state, and local income taxation in all jurisdictions.

Thin Market

A market that sees very few bid and ask offers, generally experiences low liquidity, high spreads and high volatility.

Tombstone

An advertisement from an investment bank, usually through a public news source, of a new offering that lists the syndicate members.

Trading Position

The act of keeping bonds in inventory for the purpose of buying or selling them.

Trustee

A party who serves as a beneficiary to an investor through investing and managing their assets. The trustee has a legal fiduciary duty to make decisions in the beneficiary's best interest.

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Underlying Debt

Debt that municipalities residents owe to other taxing authorities in the same geographical footprint. For example, a fire district in a county may have debt outstanding therefore its debt would be underlying the county debt.

Underwriter

An investment bank that serves as a financial intermediary between the issuer of a bond and the investor responsible for purchasing a financial instrument at the Initial Public Offering.

Variable Rate Bond

A bond with a coupon rate that adjusts at regularly scheduled intervals in response to prevailing interest rates or changes in credit quality.

Yield Curve

A curve plotting the relationship between the yield and maturity dates of similar bonds at a specific point in time.

Yield-to-call

The yield of a bond if it were to be redeemed at the next available call date.

Yield-to-maturity (YTM)

The yield of a bond or other financial instrument if it is held until its final maturity date. YTM is larger than the current yield if selling at a discount, but less if selling at a premium.

Zero-coupon Bonds

A bond which does not make periodic interest payments, but instead is sold at a discount and then matures at the face value.



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