Glossary – Bond Terms

Basis Point (BPS)
Basis point (BPS) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points, and 0.01% = 1 basis point. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 7.45% to 7.65%, it is said to have risen 20 basis points.

Bonds
A debt instrument, also considered a loan, that an investor makes to a corporation, government, federal agency or other organization (known as an issuer) in which the issuer typically agrees to pay the owner the amount of the face value of the bond on a future date, and to pay interest at a specified rate at regular intervals.

Bondholder
Owner of a bond; may be an individual or institution such as a corporation, bank, insurance company or mutual fund. A bondholder is typically entitled to regular interest payments as due and return of principal when the bond matures.

Bond rating
A method of evaluating the quality and safety of a bond. This rating is based on an examination of the issuer’s financial strength and the likelihood that it will be able to meet scheduled repayments. Ratings range from AAA (best) to D (worst). Bonds receiving a rating of BB or below are not considered investment grade because of the relative potential for issuer default.

Mortgage-backed security
A security that is secured by home and other real estate loans.

Mortgage Revenue Bonds (MRBs)
Mortgage Revenue Bonds (MRBs) are tax-exempt bonds that state and local governments issue through housing finance agencies (HFAs) to help fund below-market-interest-rate mortgages for first-time qualifying homebuyers. Eligible borrowers are first-time homebuyers with low to moderate incomes below 115 percent of median family income.

*Sources: Financial Industry Regulatory Authority, Investopedia, Municipal Securities Rulemaking Board*
**Multi-family housing revenue bonds**
Bonds issued to finance construction or rehabilitation of multi-family housing projects where a specified proportion of the units will be rented to moderate- and low-income families, in some cases specifically targeted toward elderly residents. These securities may provide financing either directly or through a loans-to-lenders program, and may be secured, in whole or in part, by federal agency guarantees or subsidies.

**Municipal bond**
A bond issued by states, cities, counties and towns to fund public capital projects like roads and schools, as well as operating budgets. These bonds are typically exempt from federal taxation and, for investors who reside in the state where the bond is issued, from state and local taxes, too.

**Private Activity Bond (PAB)**
A municipal security of which the proceeds are used by one or more private entities. A municipal security is considered a private activity bond if it meets two sets of conditions set out in Section 141 of the Internal Revenue Code. A municipal security is a private activity bond if, with certain exceptions, more than 10 percent of the proceeds of the issue are used for any private business use (the “private business use test”) and the payment of the principal or interest on more than 10 percent of the proceeds of such issue is secured by or payable from property used for a private business use (the “private security or payment test”). A municipal security also is a private activity bond if, with certain exceptions, the amount of proceeds of the issue used to make loans to non-governmental borrowers exceeds the lesser of 5 percent of the proceeds or $5 million (the “private loan financing test”). Interest on private activity bonds is not excluded from gross income for federal income tax purposes unless the bonds fall within certain defined categories (“qualified bonds” or “qualified private activity bonds”), as described below. Most categories of qualified private activity bonds are subject to the alternative minimum tax.

**Single family mortgage revenue bonds**
Bonds issued to finance mortgage loans on single-family homes, either directly by purchasing newly originated or existing mortgage loans or indirectly by allowing lenders to purchase mortgage loans using bond proceeds. Such mortgage loans generally are targeted to first-time homeowners meeting certain income and purchase price requirements. Repayment of the mortgages may be further secured by federal programs or through private mortgage insurance.

*Sources: Financial Industry Regulatory Authority, Investopedia, Municipal Securities Rulemaking Board*