AN INVESTOR'S GUIDE TO

MUNICIPAL BONDS

Investing

to maximize

after-tax income.

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WHAT ARE MUNICIPAL BONDS?

Municipal bonds are debt obligations issued by states, cities, counties and other governmental entities to raise money to build schools, highways, hospitals and sewer systems, as well as many other projects for the public good.

When you purchase a municipal bond, you are lending money to an issuer who promises to pay you a specified amount of interest (usually paid semiannually) and return the principal to you on a specific maturity date.

Not all municipal bonds offer income exempt from both federal and state taxes. There is an entirely separate market of municipal issues that are taxable at the federal level, but still offer a state — and often local — tax exemption on interest paid to residents of the state of issuance. Most of this booklet refers to munis which are free of federal taxes. See page 8 for more about taxable municipal bonds.

AN INVESTMENT FOR TODAY'S TAX-CONSCIOUS INVESTOR

Tax-exempt municipal bonds are among the most popular types of investments available today, and with good reason. They offer a wide range of benefits, including:

- Attractive current income free from federal and, in some cases, state and local taxes;
- High degree of safety with regard to payment of interest and repayment of principal;
- Predictable stream of income;

- Wide range of choices to fit in with your investment objectives with regard to investment quality, maturity, choice of issuer, type of bond and geographical location; and
- Marketability in the event you must sell before maturity.

THE ADVANTAGES OF TAX EXEMPTION

Under present federal income tax law, the interest income you receive from investing in municipal bonds is free from federal income taxes.* In most states, interest income received from securities issued by governmental units within the state is also exempt from state and local taxes. In addition, interest income from securities issued by U.S. territories and possessions is exempt from federal, state and local income taxes in all 50 states.

One of the best ways to appreciate the tax-exempt advantage of a municipal security is to compare it to a comparable taxable investment. For example, assume you are in the 33% federal tax bracket, file a joint return and with your spouse, claim $175,000 in taxable income.

Now assume you have $30,000 to invest and you are considering two investment alternatives: a tax-exempt municipal bond yielding 5.0%, and a taxable corporate bond yielding 7.0%. Which investment will prove most advantageous?

If you invested your money in the municipal bond, you'd earn $1,500 in interest (a 5.0% yield) and pay no federal income taxes. The taxable bond investment, however, would provide you only $1,407 in income after federal income taxes had been deducted (a 4.7% yield).

* *If you are subject to the alternative minimum tax (AMT), you must include interest income from certain municipal securities in calculating the tax.*

As you can see, the municipal bond would provide the best yield after taxes are taken into account. The tax-exempt security would be an even better investment if you accounted for state and local income taxes when calculating returns on the taxable bond investment.

EFFECT OF FEDERAL INCOME TAXES ON YIELDS OF TAX-EXEMPT AND TAXABLE INSTRUMENTS:

	5.0% TAX-EXEMPT BOND	7.0% TAXABLE BOND
CASH INVESTMENT	$ 30,000	$ 30,000
INTEREST	$ 1,500	$ 2,100
FEDERAL INCOME TAX IN THE 33% MARGINAL TAX BRACKET	$ 0	$ 693
NET RETURN	$ 1,500	$ 1,407
YIELD ON INVESTMENT AFTER TAXES	5.0%	4.7%

To determine the yield you would need to earn from a taxable investment to equal the yield on a tax-exempt security, refer to the chart on pages 12 and 13, or visit *investinginbonds.com* to use our Tax-Free vs. Taxable Yield Comparison Calculator online.

UNDERSTANDING YIELDS

There are basically two types of bond yields you should know about: current yield and yield to maturity.

Current yield is the annual return on the dollar amount paid for a bond. Yield to maturity is the rate of return you receive by holding a bond until it matures. It equals the interest you receive from the time you purchase the bond until maturity, plus any gain (if you purchased the bond below its par, or face, value) or loss (if you purchased it above its par value).

Tax-exempt yields are usually stated in terms of yield to maturity, with yield expressed at an annual rate. If you purchase a bond with a 6% coupon at par, its yield to maturity is 6%. If you pay more than par, the yield to maturity will be lower than the coupon rate. If purchased below par, the bond will have a yield to maturity higher than the coupon rate.

When the price of a tax-exempt security — or any bond, for that matter — increases above its par value, it is said to be selling at a premium. When the security sells below par value, it is said to be selling at a discount.

HOW SAFE ARE MUNICIPAL BONDS?

When you invest in any bond, your primary concern should be the issuer's ability to meet its financial obligations. Issuers of municipal bonds have an outstanding record of meeting interest and principal payments in a timely manner.

Issuers disclose details of their financial condition through "official statements" or "offering circulars," which are available from your bank, brokerage firm, on the Internet or from a library of official statements. Issuers also provide continuing disclosure about their financial condition through nationally recognized municipal securities repositories. You may also contact the issuer or visit the issuer's web site for ongoing information.

Another way to evaluate an issuer is to examine its credit rating. Many bonds are graded by ratings agencies such as Moody's Investors Service, Standard & Poor's and Fitch Ratings. A number of banks and brokerage firms have their own research departments which also analyze municipal securities. Bond ratings are important benchmarks because they reflect a professional assessment of the issuer's ability to repay the bond's face value at maturity.

Generally, bonds rated BBB or Baa, or better, by Standard & Poor's and Fitch, or Moody's, respectively, are considered "Investment Grade," suitable for preservation of investment capital.

CREDIT RATINGS

CREDIT RISK	MOODY'S	STANDARD & POOR'S	FITCH
PRIME	Aaa	AAA	AAA
EXCELLENT	Aa	AA	AA
UPPER MEDIUM	A	A	A
LOWER MEDIUM	Baa	BBB	BBB
SPECULATIVE	Ba	BB	BB
VERY SPECULATIVE	B, Caa	B, CCC, CC	B, CCC, CC, C
DEFAULT	Ca, C	D	DDD, DD, D

Credit ratings, however, should not be the sole basis for any investment decision. For example, the ratings do not take into account market trends. Before purchasing bonds with lower ratings, talk with your investment advisor to make sure they're suited for you.

Tax-exempt municipal bonds offer you the chance to maximize your after-tax return consistent with the amount of risk you're willing to accept. In general, as with any fixed-income investment, the higher the yield, the higher the risk.

UNDERSTANDING MARKET RISK

While the interest payment, also known as the coupon rate, cannot be changed during the life of a bond (unless, of course, it is a variable-rate security), the market price of a security changes as market conditions change. If you sell your municipal bonds prior to maturity, you will receive the current market price, which may be more or less than their original price. Consequently it is important to understand how the direction of interest rates might affect the value of your holdings. As with other fixed-income securities, municipal bond prices fluctuate in response to changing interest rates: Prices increase when interest rates decline, and prices decline when interest rates rise.

It's easy to understand the reasons:

- When interest rates fall, new issues come to market with lower yields than older securities, making the older securities worth more; hence the increase in price.
- When interest rates rise, new issues come to market with higher yields than older securities, making the older ones worth less; hence the decline in price.

UNDERSTANDING CALLS

Many bond issues allow the issuer to call — or retire — all or a portion of the bonds at a premium, or at par, before maturity. When buying bonds, be sure to ask your investment advisor about call provisions. Investment advisors will typically quote the yield to call and the yield to maturity when the yield to call is lower. This will generally occur when the bonds are trading at a price above the initial call price.

GAINS AND LOSSES

You may generate capital gains on a tax-exempt security if you sell it at a profit in the secondary market before it matures. Long-term capital gains (which require a 12-month holding period) resulting from the sale of tax-exempt municipal bonds are taxed at a maximum rate of 15% for all sales on and after May 6, 2003.

Of course, if you sell your security for less than your original purchase price, you may incur a capital loss. Under current law, up to $3,000 of net capital losses can be used annually to reduce ordinary income.

Capital losses can be used without limit to reduce capital gains.

Special rules apply to a tax-exempt bond purchased at a premium or a discount and called or sold before maturity. (Since tax laws frequently change, consult with your tax lawyer or accountant for up-to-date advice.)

BONDS WITH SPECIAL INVESTMENT FEATURES

Insured municipal bonds. Many municipal bonds are backed by municipal bond insurance specifically designed to reduce investment risk. In the unlikely event of default, an insurance company which guarantees payment will send you both interest and principal when they are due.

Floating-rate and variable-rate bonds. These securities are attractive in a rising-interest-rate environment. Generally, interest is periodically recalculated based upon a percentage of prevailing rates for Treasury bills or other interest rates.

Zero-coupon, compound-interest and multiplier bonds are issued at a deep discount of the maturity value and have no periodic interest payments. You receive one lump payment at maturity equal to principal invested, plus interest compounded semiannually at the original interest rate. Because they do not pay interest until maturity, their prices tend to be volatile. These bonds are especially attractive if you seek to accumulate capital for a long-term financial goal such as retirement planning or college costs.

Put bonds. Some bonds have a "put" feature which allows you to redeem the bond at par value on a specified date long before its maturity date. If interest rates increase, you can cash in the bonds at any put date, recoup the principal and purchase higher-yielding bonds.

TYPES OF TAX-EXEMPT MUNICIPAL BONDS

Municipal securities consist of both long- and short-term issues. Short-term securities, often called notes, typically mature in a year or less, while long-term securities, commonly known as bonds, typically mature in more than a year. Short-term notes are used by an issuer to raise money in anticipation of future revenues such as taxes, state or federal aid payments, and bond proceeds, and to cover irregular cash flows, meet unanticipated deficits and raise immediate capital for projects until long-term financing can be arranged. Bonds are usually sold to finance capital projects over the longer term. The two basic types of municipal securities are:

General obligation bonds. Principal and interest are secured by the full faith and credit of the issuer and usually supported by either the issuer's unlimited or limited taxing power. General obligation bonds are also voter-approved.

Revenue bonds. Principal and interest are secured by revenues derived from tolls, charges or rents paid by users of the facility built with the proceeds of the bond issue. Public projects financed by revenue bonds include toll roads, bridges, airports, water and sewage treatment facilities, hospitals and housing for the poor. Many of these bonds are issued by special authorities created for the purpose.

TAXABLE MUNICIPAL BONDS

Taxable municipal bonds exist because the federal government will not subsidize the financing of certain activities which do not provide a significant benefit to the public at large. Investor-led housing, local sports facilities, refunding of a refunded issue and

borrowing to replenish a municipality's underfunded pension plan are just four types of bond issues that are federally taxable. Taxable municipals offer yields more comparable to those of other taxable sectors, such as corporates or agencies, than to those of other municipals. The growth of the taxable municipal market in recent years has been astounding. In the last five years alone, over $90 billion in taxable municipals have been issued.

OTHER BASIC FACTS

Interest payments. Bond interest is usually paid semiannually. On notes, interest is typically paid at maturity.

Form of issuance. Since July 1983, as a result of federal tax law changes, municipal bonds have been issued in registered form only. With a registered security, your name is registered on the issuer's books and appears on the bond.

A growing number of municipal bonds today are issued in "book-entry" form — similar to the way U.S. government securities are issued. Ownership is recorded through data entry at a central clearinghouse. Your confirmation of purchase from your bank or investment firm provides you with a written record of the transaction. With book-entry securities, physical transfer of certificates is not necessary.

Registered and book-entry bonds offer a number of protections and conveniences to bondholders, including protection from loss or theft, automatic payment of interest, notification of calls and ease of transfer, among others.

Before July 1983, municipal securities were issued for the most part in certificate form with coupons attached. Some of these so-called bearer bonds are still available in the marketplace. The issuer has no record of who owns these bonds. The owner clips the coupons and collects the interest from the issuer's paying agent. Transferring the bonds requires physical delivery and payment.

Reporting requirements. All tax-exempt interest must be reported on tax returns. This is simply a reporting requirement and does not affect the tax-exempt status of the security.

Minimum investment. Most tax-exempt municipal bonds are issued in denominations of $5,000 or integral multiples of $5,000. Most notes are also available with a minimum denomination of $5,000.

Payment terms. Dealers are required by the Securities and Exchange Commission to have payment for a securities purchase and to make payment for a securities sale no later than the third business day following the date of the trade.

Where to find listed prices. Financial newspapers and business pages of major daily newspapers usually list prices of widely traded municipal securities. Additionally, you can find information on the Internet through various individual investor Web sites. Because the prices are typically based on $1 million lots and reflect a volume discount, purchases and sales of smaller amounts may differ according to the size of the order. You can also receive price quotes from a municipal securities broker-dealer.

Marketability. Holders of municipal securities can sell their notes or bonds in the secondary market through one of the many banks and securities dealer firms which are registered to buy and sell municipal securities. Municipal bonds are sold in the over-the-counter market instead of on an organized exchange. If you sell your bonds prior to maturity, you will receive the current market price, which may be more or less than their original cost.

What are the costs of investing in municipal bonds? Municipal securities are bought and sold between dealers and investors much like other debt instruments. Dealers trade the securities at a net cost, which includes their own spread, or profit, on the transaction.

THE TAX-EXEMPT MUNICIPAL BOND MARKET—HOW BIG AND WHO BUYS?

Outstanding state and local debt obligations totaled $1.87 trillion as of September 30, 2003, according to Federal Reserve estimates. The largest owners of tax-exempt securities are individuals like yourself, mutual and money market funds, property and casualty insurance companies, and commercial banks. In recent years, individual participation in tax-exempt municipal bonds has expanded significantly through investments in unit investment trusts and mutual and money market funds.

TAX-EXEMPT/TAXABLE YIELD EQUIVALENTS

The table that begins on the following page will help you determine the amount of income you require from a taxable investment to equal the yield on a tax-exempt bond. The table is for illustrative purposes only and is not intended to be representative of any specific security. To use the table most effectively, follow the directions in italics at the left side of the chart.

TAX-EXEMPT/TAXABLE YIELD EQUIVALENTS
2004 TAX YEAR

HOW TO USE THIS CHART

1. Find the appropriate return (single or joint).

2. Determine your tax bracket by locating the taxable income category that you fall into. Taxable income is income after appropriate exemptions and deductions are taken. (The table does not account for special provisions affecting federal tax rates, such as the alternative minimum tax.)

3. The numbers in the column under your tax bracket give you the approximate taxable yield equivalent for each of the tax-exempt yields in the near left column.

Example: If you are single and have a taxable income of $72,000 ($118,000 if married), you would fall into the 28% tax bracket. According to the table, you would need to earn 8.33% on a taxable security to match a 6.0% yield from a tax-exempt security.

	TAXABLE INCOME*						
SINGLE RETURN	$0-$7,150	$7,151–$29,050	$29,051–$70,350	$70,351–$146,750	$146,751–$319,100	$319,101 & OVER	SAMPLE EFFECTIVE MARGINAL RATE FOR CERTAIN HIGH-INCOME TAXPAYERS
JOINT RETURN	$0-$14,300	$14,301–$58,100	$58,101–$117,250	$117,251–$178,650	$178,651–$319,100	$319,101 & OVER	
TAX BRACKET	10%	15%	25%	28%	33%	35%	36%
TAX-EXEMPT YIELDS (%)	TAXABLE YIELD EQUIVALENTS (%)						
1.0%	1.11%	1.18%	1.33%	1.39%	1.49%	1.54%	1.56%
1.5	1.67	1.76	2.00	2.08	2.24	2.31	2.34
2.0	2.22	2.35	2.67	2.78	2.99	3.08	3.13
2.5	2.78	2.94	3.33	3.47	3.73	3.85	3.91
3.0	3.33	3.53	4.00	4.17	4.48	4.62	4.69
3.5	3.89	4.12	4.67	4.86	5.22	5.38	5.47
4.0	4.44	4.71	5.33	5.56	5.97	6.15	6.25
4.5	5.00	5.29	6.00	6.25	6.72	6.92	7.03
5.0	5.56	5.88	6.67	6.94	7.46	7.69	7.81
5.5	6.11	6.47	7.33	7.64	8.21	8.46	8.59
6.0	6.67	7.06	8.00	8.33	8.96	9.23	9.38
6.5	7.22	7.65	8.67	9.03	9.70	10.00	10.16
7.0	7.78	8.24	9.33	9.72	10.45	10.77	10.94
7.5	8.33	8.82	10.00	10.42	11.19	11.54	11.72

* The income brackets to which the tax rates apply are adjusted annually for inflation. Those listed above are for 2004.

** The Internal Revenue Code phases out the personal exemption deduction for taxpayers with adjusted gross income in excess of $214,050 (married, filing jointly) and $142,700 (single taxpayers). In addition, certain itemized deductions are reduced for taxpayers with adjusted gross income in excess of $142,700. In general, the limit on itemized deductions will increase the effective marginal tax rate by 1%, and the personal exemption phaseout will increase the effective marginal tax rate by 0.8% for each exemption claimed.

STATE TAXATION OF MUNICIPAL BONDS FOR INDIVIDUALS

STATE	STATE'S OWN BONDS	OTHER STATES' BONDS
Alabama		X
Alaska (no tax)		
Arizona		X
Arkansas		X
California Income		X
Colorado		X
Connecticut		X
Delaware		X
District of Columbia		
Florida		X(1)
Georgia		X
Hawaii		X
Idaho		X
Illinois	X(2)	X(2)
Indiana		
Iowa	X(2)	X
Kansas	X(2)	X
Kentucky		X
Louisiana		X
Maine		X
Maryland		X
Massachusetts		X
Michigan		X
Minnesota		X
Mississippi		X
Missouri		X
Montana		X
Nebraska		X
Nevada (no tax)		
New Hampshire		X
New Jersey		X
New Mexico		X
New York		X
North Carolina		X
North Dakota		X(3)
Ohio		X
Oklahoma	X(4)	X(4)
Oregon		X
Pennsylvania		X
Rhode Island		X
South Carolina		X
South Dakota (no tax)		
Tennessee		X
Texas (no tax)		
Utah		
Vermont		X
Virginia		X
Washington (no tax)		
West Virginia		X
Wisconsin	X(2)	X(2)
Wyoming (no tax)		

Bonds are designated "X" if taxable. All others are exempt or excluded from tax, or no income taxes are levied by those states. In certain cases, these designations pertain only to general obligation bonds, or to bonds in general. For example, a state may not generally exempt bonds, but some bonds may be specifically exempted by the laws authorizing their issuance.

(1) Subject to intangible property tax.
(2) Interest from some obligations is exempt from tax.
(3) Taxable only if long form is used.
(4) Some bonds may be exempt by state law.

STATE TAXATION OF MUNICIPAL BONDS FOR CORPORATIONS

STATE	STATE'S OWN BONDS	OTHER STATES' BONDS
Alabama		X
Alaska (no tax)		
Arizona		X
Arkansas		X
California Franchise	X	X
California Income		X
Colorado		X
Connecticut	X	X(5)
Delaware		X
District of Columbia		X
Florida	X	X(1)
Georgia		X
Hawaii		X
Idaho		X
Illinois	X(6)	X(6)
Indiana		X(7)
Iowa	X(6)	X
Kansas		X
Kentucky		X
Louisiana		X
Maine		X
Maryland		X
Massachusetts	X	X
Michigan		X
Minnesota	X	X
Mississippi		X
Missouri		X
Montana	X(6)	X
Nebraska		X
Nevada (no tax)		
New Hampshire		
New Jersey	X	X
New Mexico		X
New York (8)	X	X
North Carolina		X
North Dakota		X
Ohio		
Oklahoma	X(6)	X
Oregon	X	X
Pennsylvania		
Rhode Island		X
South Carolina		X
South Dakota	X	X
Tennessee	X	X
Texas		
Utah	X	X
Vermont		X
Virginia		X
Washington (no tax)		
West Virginia	X(5)	X
Wisconsin	X(6)	X
Wyoming (no tax)		

(5) Pro-rata adjustment is allowed.
(6) Interest on some obligations is exempt by law.
(7) Taxable only for gross income tax purposes.
(8) Interest on U.S. obligations and obligations of all states would not be taxable if the investment allocation percentage is zero. Otherwise, the interest is taxable at the investment allocation percentage.

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GLOSSARY

Advance refunding. A financing structure under which new bonds are issued to repay an outstanding bond issue prior to its first call date. Generally, the proceeds of the new issue are invested in government securities, which are placed in escrow. The interest and principal repayments on these securities are then used to repay the old issue, usually on the first call date.

Bid. The price at which a buyer will purchase a security.

Bearer security. A security that has no identification as to owner. It is presumed to be owned, therefore, by the bearer or the person who holds it. Bearer securities are freely and easily negotiable, since ownership can be quickly transferred from seller to buyer.

Bond funds. Registered investment companies whose assets are invested in diversified portfolios of bonds.

Callable bonds. Bonds which are redeemable by the issuer prior to the specified maturity date at a specified price at or above par.

Call premium. A dollar amount, usually stated as a percentage of the principal amount called, paid as a "penalty" or a "premium" for the exercise of a call provision.

Coupon. This part of a bond denotes the amount of interest due, and on what date and where the payment is to be made. Bearer coupons are presented to the issuer's designated paying agent or deposited in a commercial bank for collection. In the case of registered coupons (see "Registered bond"), the interest payment is mailed directly to the registered holder. Coupons are generally payable semiannually.

Current refunding. A financing structure under which the old bonds are called or mature within 90 days of the issuance of the new refunding bonds.

Current yield. The ratio of interest to the actual market price of the bond stated as a percentage. For example, a $1,000 bond that pays $80 per year in interest would have a current yield of 8%.

CUSIP. The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dated date (or issue date). The date of a bond issue from which the bondholder is entitled to receive interest, even though the bonds may actual-ly be delivered at some other date.

Default. Failure to pay principal or interest promptly when due.

Discount. The amount by which the purchase price of a security is less than the principal amount or par value.

Double exemption. Securities that are exempt from state as well as federal income taxes are said to have double exemption.

Extraordinary redemption. This is different from optional redemption or mandatory redemption in that it occurs under an unusual circumstance such as destruction of the facility financed.

Face amount. The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument.

Fixed-rate bond. A long-term bond with an interest rate fixed to maturity.

Floating-rate bond. A long-term bond for which the interest rate is adjusted periodically according to a predetermined formula, based upon specific market indicators.

Interest. Compensation paid or to be paid for the use of money. Interest is generally expressed as an annual percentage rate.

Issuer. A state, political subdivision, agency or authority which borrows money through the sale of bonds or notes.

Legal opinion. An opinion concerning the validity of a securities issue with respect to statutory authority, constitutionality, procedural conformity and usually the exemption of interest from federal income taxes. The legal opinion is usually rendered by a law firm recognized as specializing in public borrowings, often referred to as "bond counsel."

Limited tax bond. A bond secured by a pledge of a tax or category of taxes limited as to rate or amount.

Marketability. A measure of the ease with which a security can be sold in the secondary market.

Maturity. The date when the principal amount of a security becomes due and payable.

Moral obligation bond. A revenue bond which, in addition to its primary source of security, possesses a structure whereby a state pledges to make up shortfalls in a debt service reserve fund, subject to legislative appropriation. There is no legal obligation for the state to make such a payment, but mar-ket participants recognize that failure to honor the "moral" pledge would have negative consequences for the state's own creditworthiness.

Non-callable bond. A bond that cannot be called either for redemption by or at the option of the issuer before its specified maturity date.

Notes. Short-term promises to pay specified amounts of money, secured by specified sources of future revenues, such as taxes, federal and state aid payments and bond proceeds.

Offering price. The price at which members of an underwriting syndicate for a new issue will offer securities to investors.

Official statement. Document prepared by the issuer that gives in detail security and financial information about the issue.

Optional redemption. A right to retire all or part of an issue prior to the stated maturity during a specified period of years, often at a premium. The right can be exercised at the option of the issuer.

Original issue discount. A bond, issued at a dollar price less than par which qualifies for special treatment under federal tax law. Under that law, the difference between the issue price and par is treated as tax-exempt income rather than a capital gain, if the bonds are held to maturity.

Par value. The principal amount of a bond or note due at maturity.

Paying agent. Place where principal and interest are payable. Usually a designated bank or the office of the treasurer of the issuer.

Premium. The amount by which the price of a security exceeds its principal amount.

Principal. The face amount of a bond, exclusive of accrued interest and payable at maturity.

Ratings. Designations used by rating services designed to give relative indications of credit quality.

Registered bond. A bond whose owner is registered with the issuer or its agent either as to both principal and interest or as to principal only. Transfer of ownership can only be accomplished when the securities are properly endorsed by the registered owner.

Special tax bond. A bond secured by a special tax, such as a gasoline tax.

Swap. Simply, the sale of a block of bonds and the purchase of another block of similar market value. Swaps may be made to achieve many goals, including establishing a tax loss, upgrading credit quality, extending or shortening maturity, etc.

Trade date. The date when a bond transaction is executed.

Trustee. A bank designated by the issuer as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the trust indenture and represent bondholders to enforce their contract with the issuers.

Unit investment trust (municipal). A fixed portfolio of tax-exempt bonds sold in fractional, undivided interests.

Unlimited tax bond. A bond secured by the pledge of taxes that are not limited by rate or amount.

Yield to call. A yield on a security calculated by assuming that interest payments will be paid until the call date, when the security will be redeemed at the call price.

Yield to maturity. A yield concept designed to give the investor the average annual yield on a security. It is based on the assumption that the security is held to maturity and that all interest received over the life of the security can be reinvested at the yield to maturity.

Zero-coupon bond. A bond for which no periodic interest payments are made. The investor receives one payment — at maturity. The maturity value an investor receives is equal to the principal invested plus interest earned compounded semiannually at the original interest rate to maturity.

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