



Tax ~ Exempt
**ZERO COUPON
MUNICIPAL BONDS**

*Capital accumulation for
long-term savings such as a retirement
or an education fund.*



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INTRODUCTION

To understand fully how zero coupon municipal bonds work, it is important first to become acquainted with the principal characteristics of both municipal bonds and the zero coupon structure.

WHAT ARE ZERO COUPON BONDS?

Zero coupon bonds were introduced to the fixed-income market in 1982. They were — and are — a unique concept in the marketplace.

While most municipal bonds provide semiannual interest payments, zero coupon bonds, as their name suggests, have no “coupon,” or periodic interest payments. Instead, the investor receives one payment — at maturity — that is equal to the principal invested plus the interest earned, compounded semiannually, at a stated yield.

Zero coupon bonds are sold at a substantial discount from the face amount. When a zero coupon bond matures, the investor receives the full face amount of the bond. For example, a bond with a face amount of \$20,000, maturing in 20 years, may be purchased for roughly \$6,757. At the end of the 20 years, the investor will receive \$20,000. The difference between \$20,000 and \$6,757 represents the interest. This example is based on an interest rate of 5.5% which compounds automatically until the bond matures (see example on the next page).