The purpose of this publication is to overview U.S. Savings Bonds and to introduce them as an investment opportunity. This information is not a substitute for competent financial and legal advice. Additional information about Savings Bonds is available from the U.S. Department of Treasury, such as the Savings Bonds Owner’s Manual available on-line at http://www.savingsbonds.gov/mar/marsbomtloc.htm

U.S. Savings Bonds are safe vehicles for conservative investors with limited resources; they offer an easy way to accumulate savings, enjoy tax advantages that can reach into retirement, and achieve financial goals, such as financing a college education. Interest earned may be free from federal taxes if income limits are not exceeded at the time the bond is redeemed (cashed-in). Some Savings Bonds also offer investors the benefit of the “power” of compound interest while building a savings nest egg.

What is a savings bond?

Savings Bonds are debt instruments of the U.S. Government issued by the Department of the Treasury, that is, when buying a Savings Bond, you are lending money to “Uncle Sam.” Like any other investments, the borrower (the U.S. government) will pay the lender (you) interest for the use of the money.

Savings Bonds are backed by the full faith and credit of the U.S. Government. They are guaranteed against theft, loss, and destruction; and can be replaced free of
charge. Because of the low risk and tax advantages associated with Savings Bonds, the interest rate earned is less than many other investments. Consult a financial advisor to identify investment alternatives that will help you meet your financial goals.

Savings Bonds are non-marketable securities; you may not sell Savings Bonds to or buy them from anyone except entities authorized by the U.S. Government, such as commercial banks.

Savings Bonds are registered securities meaning that they are owned exclusively by the person or persons named on them.

### Types of Savings Bonds

Three types of Savings Bonds are available at this time — Series EE, Series I (I Bonds), and Series HH. Other series of Savings Bonds have been available in the past, such as the Series E and Series H. Some of these older bonds still exist and are earning interest for their owners; but over time, they will become less common as they mature and are redeemed.

These three types of savings bonds have many of the same features, but they also have significant differences. Perhaps the two most significant differences are when earnings are received and how the bond is acquired.

### Receipt of Earnings

- Series EE bonds and I Bonds are *accrual bonds*, that is, the interest is not paid to the owner as it is earned each month. Instead, the interest accumulates over time, is compounded semi-annually, and paid when the bond is redeemed.

- Series HH bonds are *current income bonds*; the owner receives the monthly earnings twice a year (semi-annually).

### Acquisition

- Series HH bonds can be acquired only by exchanging another savings bond, such as a Series EE bond.

- Series EE bonds and I Bonds are available only by purchase from authorized entities.

There are four ways to purchase a Series EE bond or I Bond:

- the Payroll Savings Plan with an automatic allotment from your payroll; the minimum purchase price through a payroll savings plan is $50;

These sites provide additional about each type of savings bond:

- **Series EE Bonds** — http://www.savingsbonds.gov/sav/savinvst.htm
- **I Bonds** — http://www.savingsbonds.gov/sav/sbiinvst.htm
- **Series HH Bonds** — http://www.savingsbonds.gov/sav/sbhinvst.htm
the EasySaver Plan which offers conveniences similar to a Payroll Savings Plan by allowing automatic purchases from your checking or savings account;

- at any of 40,000 financial institutions nationwide; and


- Series EE bonds and I Bonds are available in eight denominations — $50, $75, $100, $200, $500, $1,000, $5,000, and $10,000.

Maximum Amounts Available
The maximum amount of Series EE bonds an individual may purchase annually is $15,000 (i.e., $30,000 face value); the annual limit for I Bonds is $30,000. See http://www.savingsbonds.gov/mar/marsbombuy.htm.

Registering Ownership
You will need to decide who will be registered as the owner of the bond. Your choices are

- Single Ownership: Bonds registered in single ownership have one owner (such as yourself). Only the registered owner may redeem the bond. If the owner dies, the bond becomes part of the owner’s estate.

- Co-Ownership: Bonds registered in co-ownership have two co-owners (e.g., you and a family member). Either co-owner may cash the bonds without the knowledge or approval of the other. If one co-owner dies, the other co-owner becomes the sole owner of the bonds.

- Beneficiary: In beneficiary form, there is one owner and one beneficiary. The registration includes the designation “P.O.D.” (payable on death). Only the owner may redeem the bond during her lifetime. The beneficiary, if he survives the owner, automatically becomes owner of the bond when the original owner dies.

Example
This publication uses an example to illustrate many of the features of savings bonds. The example assumes you decide to invest $100 in a savings bond in December 2003.

Purchasing a Series EE or I Bond
Your two choices are 1) purchase a Series EE bond with a face value of $200 or 2) purchase an I Bond with a face value of $100. That is, Series EE bonds are purchased for one-half their face value, e.g., $25 (issue price) for a $50 bond; I Bonds are purchased at their face value. But in either situation (in this example), you are investing $100.

Visit http://www.savingsbonds.gov/sav/savbywho.htm for more information about registering the bond.

You can give a bond to someone at the time you purchase it by registering the bond in the donee’s name. For more information about making such a gift, visit http://www.savingsbonds.gov/sav/savgifts.htm.

Co-ownership increases the amount of savings bonds that can be purchased annually because the limit is per person.
Interest Rates

Another difference between Series EE bonds and I Bonds is the interest rate you will earn. In both cases, the interest rate is changed every six months — every May and November.

- In our example, you buy a savings bond in December 2003. For the next six months (December 2003 to June 2004), you will earn the rate in effect at the time of the purchase, that is, the rate that was announced in November 2003. In June 2004, your bond will begin earning the rate that was announced in May 2004. The interest rate will change again December 2004 to reflect the rate that will be announced in November 2004.

Different Interest Rate for Series EE and I Bonds

The interest rate for a Series EE bond is based on the interest rate for five-year Treasury securities. The interest rate for an I Bond is indexed for inflation; it is intended to protect the purchasing power of the owner’s investment and earn a guaranteed real rate of return. Accordingly, the I Bond interest rate is composed of two parts:

- a fixed base rate that remains the same for the life of the bond, and
- an inflation adjustment that is updated every six months to reflect the rate of inflation; that is, the Consumer Price Index as published by the Bureau of Labor Statistics.

Thus a Series I bond protects your earnings from inflation.

Current interest rates for Savings Bonds can be found at several online sites:

- [http://www.savingsbonds.gov](http://www.savingsbonds.gov)

- The current rate for Series EE bonds (May 2003) is 2.66%; the current rate for I Bonds is 4.66%. Assuming that the new rates announced in November 2003 remain unchanged, your $100 will earn $.22 monthly by investing in a Series EE bond and $.39 monthly if you invest in an I Bond.

- Six months later (June 2004), the interest will be added to the bond ($1.33 for a Series EE bond and $2.33 for an I Bond). This interest will now earn interest in the future. The practice of “interest earning interest” is referred to as compounding.

- Assume that the interest rates announced in May 2004 are slightly higher than the current rates (for example, 2.75% for Series EE bond and 4.75% for an I Bond), the monthly earnings for the Series EE bond will then be $.23; the monthly earnings for an I Bond would be $.40. These increases in monthly earnings reflect the change in interest rate and the increased value of the bond (as a result of compounding the interest earned during the first six months of owning the bond).
### Compound Interest

Compounding interest means that the interest your investment earns is regularly added to the principal. You will then earn interest on this larger amount of principal; thus you are “earning interest on your interest.” When tax deferred and held long term, savings increase dramatically. You can use the “rule of 72” to estimate when your savings will double. Simply divide 72 by the interest rate you are earning. Using this rule of thumb, money put to work at an average of 5 percent annually will double in a little more than 14 years (72 divided by 5 equals 14.4). At 6 percent, the investment would double in value in approximately 12 years.

Because the earned interest is accumulating, the value of a Series EE bond and I Bond changes frequently. The current value of your bond can be calculated at [http://www.publicdebt.treas.gov/sav/savcalc.htm#Worth](http://www.publicdebt.treas.gov/sav/savcalc.htm#Worth).

Similarly, The Savings Bond Wizard ([http://www.publicdebt.treas.gov/sav/sawwizar.htm](http://www.publicdebt.treas.gov/sav/sawwizar.htm)) is “a downloadable program that allows you to maintain an inventory of your bonds and determine the current redemption value, earned interest, and other information. You can also print your bond inventory, providing you with an important record if you ever need to replace any of your savings bonds.”

### Transferring Bonds

#### Transferring Savings Bonds during my Lifetime

- Savings bonds cannot be sold to another person.
- The owner of a bond can give it to another person only by having it reissued by the government, but this may trigger reporting the interest accrued to that time as income for tax purposes.

See [http://www.savingsbonds.gov/mar/marsbomown.htm](http://www.savingsbonds.gov/mar/marsbomown.htm) for more information on reissuing a bond to give it to another person.

- Series EE bonds can be exchanged for (converted to) Series HH bonds. An I Bond may NOT be exchanged for HH bonds.

See [http://www.savingsbonds.gov/mar/marsbomindivseries.htm](http://www.savingsbonds.gov/mar/marsbomindivseries.htm) for information on exchanging your Series EE bonds.

#### Transferring Savings Bonds at Death

As an owner’s estate is settled, Savings Bonds will be 1) redeemed for cash, 2) transferred (reissued) to the appropriate heir, or 3) if the bond was co-owned, the surviving co-owner can continue to own the bonds.
Redeeming Bonds

- Your savings bond can be converted to cash by redeeming it with the federal government.
- Series EE bond or I Bond cannot be redeemed during the first 12 months of ownership; in this example the earliest the bond could be redeemed is December 2004.
- You can redeem the bond any time after the first 12 months; but if you redeem it in less than five years (before December 2008 in this example), you will forfeit 3 months of interest as a penalty.

Face Value of an I Bond

An I Bond is purchased at its face value so there is no original maturity for an I Bond. Even though the value of an I Bond increases over time as interest accumulates, there is no guaranteed rate of return.

Value of Bond

Series EE Bonds Reaching Face Value (Original Maturity)

- A Series EE bond will reach its face value ($200 in the example) when $100 of interest has been earned. If interest rates are low, there will be a one-time adjustment in the value of the bond to bring it to its face value ($200 in this example) by the end of 20 years (original maturity). That would be December 2023 in this example. If the interest rates are high, a Series EE bond may reach its face value in less than the minimum 20 years.
- The guarantee that a Series EE bond will double in value in 20 years implies that there is a guaranteed minimum annual interest rate of 3.5% if you hold the bond for 20 years.
- For Series EE bonds issued between May 1997 and May 2003, the original maturity date was 17 years. The additional three years (extending the time from 17 years to 20 years) for bonds issued since May 2003 reflect a lower guaranteed interest rate.
- If not redeemed; a Series EE bond will continue to earn interest even after its original maturity date; this interest will continue to be added to the value of the bond. Thus the bond in this example is assured to be worth more than $200 if it is held more than 20 years.


### Final Maturity

Series EE bonds and I Bonds are fully matured (*final maturity*) and cease earning interest after 30 years ([http://www.publicdebt.treas.gov/com/comee.htm](http://www.publicdebt.treas.gov/com/comee.htm)). Interest that has accrued during the 30 years must then be reported as income for federal tax purposes even if the bond is not redeemed. However, interest earned on Series EE bonds that are exchanged for Series HH bonds within one year after final maturity does not need to be reported until the Series HH bond is redeemed (perhaps as long as *another 20 years*). See [http://www.publicdebt.treas.gov/com/comfinal.htm](http://www.publicdebt.treas.gov/com/comfinal.htm).

- Series E bonds issued prior to December 1, 1965 earn interest for 40 years.
- Investors should plan to redeem their bonds when they reach final maturity — December 2033 in this example. Alternatively, Series EE bonds could be exchanged for a Series HH bond.

### Exchanging Series EE Bond for Series HH Bond

Series EE bonds may be exchanged for Series HH bonds. Once you have made the exchange, the new Series HH bonds will provide a steady source of income — paid semiannually. But you are also deferring the tax on the interest you earned on your Series EE bonds for up to an additional 20 years — the final maturity for Series HH bonds. To exchange your Series EE bonds for Series HH bonds you must forward them to a servicing *Federal Reserve Bank*.

- Your financial institution may help you with the exchange, or

You can send your exchange transaction directly to a *Federal Reserve Bank*, this includes:

- completing and signing the request for payment on the back of each savings bond you are exchanging; you must do this in the presence of an officer of a financial institution authorized to certify signatures, and
- completing and signing the “Exchange Application for U.S. Savings Bonds of Series HH,” form PDF 3253, and send it to a Federal Reserve Bank along with the savings bonds and any other information that may be required.

### Income Tax Considerations

- All savings bonds are exempt from state and local taxes.
- Interest on Series EE bonds and I Bonds accumulates until the bond is redeemed; therefore there is no taxable income (for federal income tax purposes) until the bond is redeemed (unless you choose to report your interest income each year.)

Restated, federal income tax can be deferred until the bonds are redeemed or they reach their final maturity (30 years), whichever comes first.

For more information on income tax considerations, see:

- [http://www.savingsbonds.gov/sav/savintax.htm](http://www.savingsbonds.gov/sav/savintax.htm)
- [http://www.savingsbonds.gov/sav/sbitxrep.htm](http://www.savingsbonds.gov/sav/sbitxrep.htm)

- There may be no federal income tax if the proceeds from the redeemed bond are used for educational purposes.

See [http://www.savingsbonds.gov/sav/saveduca.htm](http://www.savingsbonds.gov/sav/saveduca.htm) for information on using your bonds for educational purposes.

- If Series EE bonds are not converted when they mature, the accumulated interest will be taxable even if the bond is not redeemed. Accordingly, owners will want to redeem or exchange their bonds by the time they reach final maturity.
Series HH Savings Bonds

Series HH bonds are described as income securities because they provide the owner current income by paying a fixed amount of interest every 6 months (semi-annually). The interest is paid through an electronic fund transfer into a checking or savings account designated by the owner.

For more information on Series HH bonds, see http://www.savingsbonds.gov/sav/sbhinvst.htm.

■ Acquiring a Series HH Bond

Series HH bonds can be acquired only by exchanging other savings bonds or notes you already own (such as Series E bonds, Series EE bonds and savings notes), or by reinvesting a matured Series H bond. Series HH bonds cannot be purchased outright.

- A minimum value of $500 in eligible savings bonds is required to make an exchange.
- In our example of buying either a Series EE bond or an I Bond, you would need to combine it with other savings bonds you own to reach this minimum value of $500.
- When exchanging bonds for a Series HH bond, it is the actual value of the bonds — not the face value — that is considered. For example, a Series EE bond with a face value of $500 that has not yet reached its original maturity will have a value of less than $500 and would not (by itself) be enough to qualify to be exchanged for a Series HH bond.

• Series HH bonds are available in four denominations: $500, $1,000, $5,000, and $10,000.
• If the value of the securities you are exchanging is not an exact multiple of $500, you may make up the difference with other funds. For example, if you are exchanging Series EE bonds valued at $900, you may add $100 in cash to buy a $1,000 Series HH bond or you may buy a $500 Series HH bond and receive the remaining $400 as cash. The money you receive may be subject to federal income tax. You may never add more than $499 in cash.
• There is no limit on the amount of Series HH bonds you can exchange during a calendar year.
• Series H bonds are no longer issued, but many are still outstanding and provide income to their owner(s). These can be reinvested for Series HH bonds if the owner so desires.

For information on reinvesting Series H bonds for Series HH bonds, see http://www.savingsbonds.gov/sav/sbhreinv.htm.

A Series HH bond has a 10-year life, but if it is not redeemed, it is automatically extended for another 10 years. Series HH bonds reach final maturity after 20 years, and will no longer earn interest. Owners should plan to redeem or reinvest matured Series HH bonds.

See http://www.savingsbonds.gov/sav/sbhreinv.htm for information on redeeming or reinvesting matured Series HH bonds.
Value of a Series HH Bond

The value of a Series HH bond does not change because the interest is paid to the owner every 6 months. When you redeem a Series HH bonds, you receive its face value. Restated, you acquire Series HH bonds at their face value — you exchange bonds valued at $500 for a $500 Series HH bond – and you redeem them for their face value. This is different than Series EE bonds and I Bonds (the accrual bonds) where the value changes as interest is accrued.

Interest Rate on a Series HH Bond

The interest rate for a Series HH bond is established at the time it is acquired and remains unchanged for the 10-year life of the bond. If the bond is not redeemed at the end of 10 years and is extended for a second 10-year period, the interest rate for the second period is established at the time the bond is extended.

- For example, Series HH bonds issued from March 1993 through December 2002 earn interest at 4% annually; Series HH bonds issued or extended after January 1, 2003 will earn 1.5% annually (http://www.savingsbonds.gov/sav/sbhinter.htm).

Transferring a Series HH Bond

The rules and limits on transferring of a Series HH bond during the owner’s lifetime or at the time of death are the same as for a Series EE bond or an I Bond (as described in other sections).

Income Tax on the Interest from a Series HH Bond

Interest earned on a Series HH bond is subject to federal income tax in the year the interest is paid to the owners.

- But the interest accumulated on the predecessor bond (such as Series EE bond) will not be reported for income tax until the Series HH bond is redeemed. That is, you continue to defer the federal income tax on the interest accumulated in the Series E or EE bond until you redeem the Series HH bond or until it reaches final maturity.

Redeeming a Series HH Bond

Series HH bonds may be redeemed at face value any time after 6 months. Interest earned between the time of the most recent payment and the time of redemption is never paid; therefore, it is highly recommended that HH bonds be redeemed as soon as possible after a semi-annual interest payment.

Final Maturity for a Series HH Savings Bond

Series HH bonds reach final maturity and stop earning interest 20 years from their issue date. Any interest from other savings bonds that you exchanged to acquire your Series HH bonds must be reported as taxable income on your federal income tax return for the year in which your Series HH bond reaches final maturity.

- Series HH bonds earn interest for different lengths of time depending on the series of the bonds and, in some cases, when the bond was issued.
• Series H bonds issued June 1952 through January 1957 had an original maturity period of nine years, eight months. These bonds are eligible for two 10-year extensions.

• Series H bonds issued from February 1957 through December 1979 had an original maturity period of ten years. These bonds are eligible for two 10-year extensions.

• Series HH bonds issued after January 1980 have an original maturity period of ten years and are eligible for one 10-year extension.

• After final maturity (20 years in the example of Series HH), bonds will no longer earn interest. Once a bond reaches final maturity (20 years), owners are notified and provided reinvestment information.

• Owners will want to redeem or reinvest by the time the bond reaches final maturity.

Summary

Savings Bonds are backed by full faith and credit of U.S. Government, can only be acquired and redeemed through entities designated by the Government such as commercial banks, and are registered in the name of the owner(s). Interest earned on Series EE bonds and I Bonds accumulate over time; interest earned on Series HH bonds is paid semi-annually.

There is no state or local income tax on interest earned from savings bonds. There is no federal taxable income on Series EE bonds and I Bonds until they are redeemed or reach final maturity. Interest paid semi-annually on Series HH bonds is taxable in the year it is received.

Savings bonds are easily converted to cash. Series EE bonds and I Bonds can be redeemed any time after one year; they can be redeemed anytime after five years with no penalty. Series HH bonds can be redeemed anytime after 6 months.

Savings bond investors would be wise NOT to make savings bonds their only investment tool. Savings bonds historically have provided significantly less returns than small or large company stocks and mutual funds. A diversified portfolio, including savings bonds, is more likely to provide sufficient funds for long-term goals. Investors are encouraged to seek the advise of a professional financial advisor.
# Features of Savings Bonds

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<th>U.S. Savings Bond Disadvantages</th>
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<td>■ Competitive yield relative to market interest rates.</td>
<td>■ Series EE bonds will not reach face value if redeemed prematurely.</td>
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<td>■ Interest exempt from state and local taxes.</td>
<td>■ Other investments may offer higher rates of return.</td>
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<td>■ Federal income tax need not be paid until bonds are redeemed.</td>
<td>■ Series EE and I bonds cannot be redeemed during the first 12 months after purchase.</td>
</tr>
<tr>
<td>■ Enables long-term savings with modest sums of money.</td>
<td>■ Series HH bonds cannot be redeemed during the first 6 months after acquisition.</td>
</tr>
<tr>
<td>■ No sales charge or fee.</td>
<td>■ No current income is received from Series EE and I bonds.</td>
</tr>
<tr>
<td>■ Saving income-tax free for higher education is possible, if income qualifications are met.</td>
<td>■ Taxes paid on earnings at marginal tax rate (compared to other investments which may be taxed at a lower rate).</td>
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<tr>
<td>■ Payroll deductions through employers make saving automatic.</td>
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<tr>
<td>■ If held for 20 years, EE bonds are guaranteed to earn approximately 3.5 percent annual return.</td>
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<tr>
<td>■ E/EE bonds can be exchanged for HH bonds tax deferred.</td>
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# Comparing Savings Bonds Series

<table>
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<th>Series EE</th>
<th>I Bond</th>
<th>Series HH</th>
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</thead>
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<tr>
<td><strong>How do I acquire a bond?</strong></td>
<td>Purchased in one of four ways - payroll deduction, at a local bank, online, or set up an automatic purchase</td>
<td>Purchased in one of four ways - payroll deduction, at a local bank, online, or set up an automatic purchase</td>
<td>By exchanging eligible bonds such as Series E, Series EE, or by reinvesting a Series HH bond; a minimum value of $500 is required</td>
</tr>
<tr>
<td><strong>When is the interest paid?</strong></td>
<td>The interest accumulates over the life of the bond (compounding semiannually); it is not paid until the bond is redeemed — accrual bond</td>
<td>The interest accumulates over the life of the bond (compounding semiannually); it is not paid until the bond is redeemed — accrual bond</td>
<td>The interest is paid semiannually — current income bond.</td>
</tr>
<tr>
<td><strong>What is the rate of interest?</strong></td>
<td>It is adjusted every 6 months to reflect a market rate of interest</td>
<td>It is adjusted every 6 months to reflect rate of inflation</td>
<td>Established at the time the bond is acquired, and remains unchanged for the life of the bond (10 years)</td>
</tr>
<tr>
<td><strong>When can the bond be redeemed?</strong></td>
<td>Anytime after the first year, but there is an interest penalty if redeemed within 5 years</td>
<td>Anytime after the first year, but there is an interest penalty if redeemed within 5 years</td>
<td>Anytime after 6 months</td>
</tr>
<tr>
<td><strong>Does the value of the bond change?</strong></td>
<td>Yes, the bond is purchased for one-half its face value; the value of the bond increases as interest is accumulated; bond is guaranteed to double in value (reach face value) in 20 years; it may reach face value in less than 20 years if the interest rate is higher</td>
<td>Yes, the bond is purchased for its face value but the value of the bond will increase as interest is accumulated; there is no guaranteed interest rate</td>
<td>No, the value of the bond does not change. The bond is acquired at its face value and remains at its face value throughout its lifetime</td>
</tr>
<tr>
<td><strong>How long will the bond earn interest?</strong></td>
<td>The bond reaches its final maturity 30 years after it is issued</td>
<td>The bond reaches its final maturity 30 years after it is issued</td>
<td>The bond reaches its final maturity 20 years after it is issued</td>
</tr>
<tr>
<td><strong>Can the bond be exchanged for another bond?</strong></td>
<td>Yes, can be exchanged for a Series HH bond</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Is the interest subject to local and state income tax?</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Is the interest subject to federal income tax?</strong></td>
<td>Yes, but only when the bond is redeemed (except there may be no income taxes if proceeds from the bond are used for educational purposes); the interest on a bond that has reached final maturity (30 years) must be reported for tax purposes even if the bond is not redeemed or exchanged</td>
<td>Yes, but only when the bond is redeemed (except there may be no income taxes if proceeds from the bond are used for educational purposes); the interest on a bond that has reached final maturity (30 years) must be reported for tax purposes even if the bond is not redeemed</td>
<td>Yes, it is taxable in the year the interest is received</td>
</tr>
<tr>
<td><strong>What happens to the bond upon death of the owner?</strong></td>
<td>1) redeemed for cash, 2) transferred (reissued) to appropriate heir, or 3) if co-owned, surviving co-owner may continue to own the bond</td>
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