

## **Oregon Baccalaureate (ORBAC) Bonds**

### **Background:**

The State of Oregon first issued Oregon Baccalaureate Bonds, known as ORBAC bonds, in 1988 for the Board of Higher Education. The program was created for investors to save for future educational expenses or other individual, long-term financial goals. Since then, the State has issued 25 series of these types of bonds, totaling more than \$471 million. The most recent ORBAC bonds were sold in 2001.

Most municipal bonds are “current interest bonds,” which usually pay interest every six months until the bonds mature. ORBAC bonds, however, are “deferred interest bonds,” which pay all the interest due when the bonds mature.

The ORBAC Bond Program was designed primarily for investors who plan to hold their bonds until maturity. ORBAC bonds, like other deferred interest bonds, are subject to much wider swings in market value than traditional tax-exempt municipal bonds. If deferred interest bonds are sold prior to maturity, their sale price will depend upon the re-sale bond market conditions at that time. When interest rates rise, the sale price of a deferred interest bond falls more than the price of a comparable current interest municipal bond.

There are two types of ORBAC bonds. Most series of ORBAC bonds have a “face” (maturity) value of \$5,000. The second type, “Mini-ORBAC” bonds have a face value of \$1,000. Both types are deferred interest bonds and were sold at a considerably lower amount when the bonds were first issued. As such, an investor is not likely to receive the full face value of an ORBAC bond unless the investor holds the bond to maturity.

### **Are ORBAC bonds tax-exempt?**

Generally, yes. Interest on all currently outstanding ORBAC bonds may be excluded from gross income under the United States Internal Revenue Code. Interest is also exempt from Oregon state personal income taxes.

If an investor purchases an ORBAC bond as part of the initial offering of that bond, and holds that bond until it matures, the investor will not owe federal income taxes or Oregon personal income taxes on the difference between the price the investor paid for the ORBAC bond and the amount of the ORBAC bond that is paid at maturity.

However, if an investor purchases an ORBAC bond after its initial offering, or sells it prior to its maturity, a portion of the amount the investor receives from the ORBAC bond may be considered taxable profit, rather than tax-exempt interest. Investors who purchase ORBAC bonds after their initial offering or sell them prior to their maturity should consult a tax advisor to determine how the amounts the investor receives will be taxed. Investors should keep all paperwork regarding the purchase and sale of their ORBAC bonds.

### **How often do ORBAC bonds pay?**

ORBAC bonds *do not* pay interest every six months like traditional bonds. ORBAC bonds pay interest only at maturity. All interest is compounded semi-annually at a fixed rate until the bond matures. No interest accrues after the maturity date.

### **What can I do with the money I receive from an ORBAC bond?**

Amounts investors receive from ORBAC bonds may be used for any purpose. Although ORBAC bonds have been marketed as an investment to help save for future college costs, they do not have to be used for that purpose. The bonds are not part of any tuition guarantee or savings program of the State of Oregon. Instead, ORBAC bonds are a type of investment vehicle that earns a fixed, compounded rate of interest and pays all that interest to an investor at maturity. Use of the money received from the investment is not restricted.

### **What paperwork is available on ORBAC bonds?**

Some ORBAC bonds were issued in “certificated” form. This means that the investor actually receives a paper bond. To receive payment at maturity, investors must present the certificates to the [Office of the State Treasurer](#) or to the [State’s Fiscal Agent](#) (currently The Bank of New York Mellon). Investors holding the certificated bonds should maintain the paperwork in a secure location.

Some ORBAC bonds are available in “book-entry” form, and no paper certificate is issued. ORBAC bonds in book-entry form are paid automatically on their maturity date through the Depository Trust Company to the investor’s broker. The broker then credits the payment to the investor’s account through the brokerage firm.

### **What is a safekeeping receipt?**

A safekeeping receipt is a document issued by a bank which states the bank is holding the original bond certificate for the bondholder and will return the certificate when requested by the depositor/bondholder. A safekeeping receipt is not valid for redeeming bonds; the original paper bond must be retrieved from the bank. In the event that the bank cannot locate the original bond, a Bond of Indemnity is required in order to redeem the bond when it matures or is called (see below [What if I lose my ORBAC bond certificate?](#)).

## **How do I get paid when my ORBAC bonds mature?**

ORBAC bonds in book-entry form will be paid by credit automatically to the account of the investor's broker at the time of maturity and do not need to be presented for payment.

When ORBAC bonds in certificated form mature, investors may present them for payment of principal to the [Oregon State Treasurer's Office](#) in Salem, Oregon, if you are an Oregon resident, or send them to the [State's Fiscal Agent](#) if you reside outside of Oregon. Full instructions for presenting bonds are available at:

<http://www.ost.state.or.us/Services/Bonds/Redemption.asp>

Investors with certificated bonds will not be notified when their bonds mature. Investors are responsible for keeping track of when their bonds mature. Please contact the Oregon State Treasurer's Office (Bond & Coupon Section) at 503-378-2881 for any questions regarding redemption of certificated ORBAC bonds.

## **What if I lose my ORBAC bond certificate?**

If an ORBAC bond certificate is lost or destroyed, you must present a Bond of Indemnity, issued by an insurance company licensed to do business in Oregon to the [State's Fiscal Agent](#) before replacement or payment at maturity may be accomplished. ORBAC bondholders have the option of purchasing the Bond of Indemnity from any insurance company, or the bondholder may work with the State's Fiscal Agent and its insurance company to purchase the Indemnity Bond.

The fee for a Bond of Indemnity currently ranges from 2-4% of the face value of the bond. Call The Bank of New York Mellon, the State's Fiscal Agent, at 1-800-438-5473 to obtain further instructions and forms.

## **ORBAC bonds sold to date:**

<b>SERIES</b>	<b>DATED DATE</b>	<b>FUTURE MATURITIES</b>
<a href="#">1988 Series B</a>	5/12/88	August 1, 2008
<a href="#">1989 Series A, B &amp; C</a>	9/27/89	August 1, 2008 - 2019
<a href="#">1990 Series A</a>	5/10/90	August 1, 2008 - 2012
<a href="#">1990 Series B</a>	10/11/90	August 1, 2008 - 2013
<a href="#">1993 Series A</a>	10/15/93	August 1, 2008 - 2013
<a href="#">1996 Series A, B* &amp; C</a>	5/16/96	August 1, 2008 - 2016
<a href="#">1997 Series A, B* &amp; C</a>	5/29/97	August 1, 2008 - 2019
<a href="#">1998 Series A, B* &amp; C</a>	3/12/98	August 1, 2008 - 2017
<a href="#">1998 Series D, E* &amp; F</a>	11/5/98	August 1, 2008 - 2016
<a href="#">1999 Series A, B, C* &amp; D</a>	10/1/99 & 10/14/99	August 1, 2008 - 2017
<a href="#">2001 Series A, C*</a>	12/19/01	August 1, 2008 - 2021

\* Only "Mini-Bonds" were issued in certificated form with a value at maturity of \$1,000. All other ORBAC bonds were issued in book-entry form.

## **Future Sales of ORBAC bonds:**

The State of Oregon does not have plans to sell additional series of ORBAC bonds in the near future. If college savings are a goal for investors, the Office of the State Treasurer recommends a tax-advantaged 529 college savings program, the [Oregon College Savings Plan](#).

It may be possible to purchase ORBAC bonds on the secondary market through securities brokers. The Office of the State Treasurer does not track bond sales in the secondary, or re-sale, market and does not sell ORBAC bonds on the secondary market. ORBAC bonds may not be suitable for all investors.

Before purchasing ORBAC bonds on the secondary market, investors should review the Official Statement for the particular ORBAC bonds to be purchased and all relevant continuing disclosure information provided by the State of Oregon. This information is available from the [Electronic Municipal Market Access](#) website. The State also recommends that potential investors consult with a qualified financial advisor before purchasing ORBAC bonds on the secondary market.