

Information Statement

Series EE Bonds

(Issued May 1997 or Later)
United States Treasury Department

What Are Series EE Bonds?

Series EE bonds are a type of United States Savings Bond offered by the Department of the Treasury. The United States backs these bonds with its full faith and credit.

A bond earns interest through application of a market-based savings bond rate. The savings bond rate is a percentage of market yields on outstanding five-year marketable Treasury securities. We announce this rate every six months. Interest accrues monthly and compounds semiannually.

A bond can earn interest for up to 30 years and interest earnings are payable upon redemption. Interest earnings on bonds are exempt from State and local income taxes, but bonds are subject to other State and local taxes as well as Federal taxes.

What Are Some Investment Considerations Relating to Series EE Bonds?

Although we've summarized these investment considerations below, we urge you to read more on the pages listed.

- **Redemption.** You cannot redeem a bond until six months after its issue date. (See page 7.)
- **Interest Penalty.** If you redeem a bond before it turns five years old, you'll forfeit the three most recent months' interest on that bond. (See page 7.)
- **Portfolio.** As with any investment product, you should consider whether these bonds are the right choice for your investment portfolio. (See page 3.)

What's This Information Statement All About?

This information statement explains selected features of Series EE bonds, as well as some investment considerations relating to these bonds. You can use this document to help you determine whether to buy a bond. **This document applies only to Series EE bonds issued May 1997 or later.** Different rules apply for bonds issued before that date. This document is explanatory only. The offering, terms, and conditions of bonds are located in the Code of Federal Regulations. You can find this information, along with informal guidance on bonds, on the Internet at <www.savingsbonds.gov>.

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Introduction

Overview of Bonds. Series EE bonds are a type of United States Savings Bond offered by the Department of the Treasury. The United States backs these bonds with its full faith and credit.

A bond earns interest through application of a market-based savings bond rate. The savings bond rate is a percentage of market yields on outstanding five-year Treasury securities. We announce this rate every six months. Interest accrues monthly and compounds semiannually.

A bond can earn interest for up to 30 years and interest earnings are payable upon redemption. However, you cannot redeem a bond until six months after its issue date. (The issue date of a bond generally is the first day of the month in which you purchased the bond.) Furthermore, if you redeem a bond before it turns five years old, you'll forfeit the three most recent months' interest on that bond.

Interest earnings on bonds are exempt from State and local income taxes, but bonds are subject to State and local estate, inheritance, gift, and other excise taxes. Interest earnings also are subject to Federal taxes.

The Big Picture—Bonds and Your Portfolio. We've designed Series EE bonds to be low-risk investments for the public. As with any investment, you should reflect on whether Series EE bonds meet your investment goals.

With investments generally, the longer your investment horizon, the more risk you may be willing to accept. The greater the risk you assume, the larger the return you may earn. However, greater risk also exposes you to an increased possibility of loss.

In addition, you also should consider whether and how to diversify your investment portfolio. By placing your investment eggs in different baskets, you can reduce your potential loss if some of your investments don't perform well. On the other hand, diversification means that some of your investments won't perform as well as others.

Keeping your investment goals in mind, you can use this information statement to help you evaluate the extent to which Series EE bonds should be a part of your portfolio.

How Does a Bond Increase in Value?

Market-Based Savings Bond Rate.

A Series EE bond earns interest at a variable interest rate called the savings bond rate. This rate is a percentage of the average market yield on outstanding five-year marketable Treasury securities. For the first 17 years after you buy your bond, the savings bond rate will be 90% of the market yields on outstanding 5-year Treasury securities, as measured by us over a preceding six-month period. For the final 13 years that your bond can earn interest, we'll use the same method unless we specifically change the method in our regulations. We announce savings bond rates each May and November.

Please note that the savings bond rate isn't equivalent to an annual percentage yield (APY), which financial institutions must disclose when detailing terms of certificates of deposit and other financial offerings. You cannot make direct comparisons between the savings bond rate and the APY.

Semiannual Rate Periods. A bond's semiannual rate periods are consecutive six-month periods, the first of which begins with the bond's issue date.

Why are semiannual rate periods important? It's not until a bond enters a new semiannual rate period that the most recently announced savings bond rate begins to apply. This means that there can be a delay of several

months from the time of a savings bond rate announcement to the time that rate determines interest earnings for a bond.

Examples: If you purchased a bond in April, its semiannual rate periods begin every April and October. At the beginning of the semiannual rate period in April, the most recently announced composite rate would have been that which we announced the previous November. This rate will determine interest earnings for your bond for the next six months, through the end of September. At the beginning of the semiannual rate period in October, the most recently announced composite rate would have been that announced the previous May. This rate will determine interest earnings for your bond through the end of the following March.

By contrast, if you purchased a bond in May, its semiannual rate periods begin in May and November. Accordingly, the savings bond rates announced in May and November will apply immediately to this bond.

The chart on the next page may help you understand when a savings bond rate applies to a bond, depending on the bond's issue date.

How Semiannual Rate Periods Determine when an Announced Savings Bond Rate Begins to Apply to a Bond

If Your Bond Has an Issue Date of ...	Then Its Semiannual Rate Periods Begin Every ...	And We Announce the Rate that Applies During a Rate Period In ...
January 1	January 1	November (of the previous year)
	July 1	May
February 1	February 1	November (of the previous year)
	August 1	May
March 1	March 1	November (of the previous year)
	September 1	May
April 1	April 1	November (of the previous year)
	October 1	May
May 1	May 1	May
	November 1	November
June 1	June 1	May
	December 1	November
July 1	July 1	May
	January 1	November (of the previous year)
August 1	August 1	May
	February 1	November (of the previous year)
September 1	September 1	May
	March 1	November (of the previous year)
October 1	October 1	May
	April 1	November (of the previous year)
November 1	November 1	November
	May 1	May
December 1	December 1	November
	June 1	May

Notes:

- (1) We announce rates every May and November, on the first day of the month that we're open for business. A rate applies when a bond enters a semiannual rate period that begins on or after the month of the rate announcement.
- (2) We add interest earned during each month of a rate period to a bond's value on the first day of the following month. However, a three-month interest penalty applies if you redeem a bond before it turns five years old.

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Accrual of Interest. Interest on a bond accrues on the first day of each month. In other words, we add the interest earned on a bond during any given month to its value at the beginning of the following month.

Example: If you redeem a bond on January 31, none of the interest earned in January will be included in its value. If you wait one more day and redeem the bond on February 1, the value of the bond will reflect interest earned during January.

Accrued interest is payable upon redemption, though a three-month interest penalty applies if you redeem a bond before it turns five years old. (See “*Interest Penalty for Early Redemption*,” on page 7.)

Compounding. For determining future interest accruals, the accrued interest on a bond compounds semiannually, at the beginning of each semiannual rate period.

Issue price. We offer Series EE savings bonds for one-half their face value. This means that if you buy a Series EE bond with a denomination of \$50, you’ll pay \$25. This differs from Series I bonds, which we offer at face value. We guarantee that a Series EE bond’s redemption value when it turns 17 years old will be no less than its face value.

Bond owners sometimes mistakenly believe that a bond stops earning interest when it reaches its face amount. This assumption is incorrect. A bond can earn interest for up to 30 years. If you hold your bond long enough, its redemption value will reach and can exceed its face value.

Purchase Limitation. You can purchase no more than \$30,000 (face

amount) in bonds in your name during any calendar year. Because we sell Series EE bonds for one-half their face value, this means you can spend no more than \$15,000 on Series EE bonds registered in your name during any calendar year. The limit applies separately for bonds that you purchase in an individual capacity and for those you purchase in a fiduciary capacity. If you purchase bonds in coownership form, you can apply the purchase toward your limitation amount or that of that other coowner, or divide it between the two of you. The limitation doesn’t apply to bonds on which you name yourself as a beneficiary, as opposed to those on which you name yourself as an owner or coowner.

Base Denomination for Calculations of Interest. We base all calculations of interest on a hypothetical bond with a denomination of \$25, having a value at the beginning of its first semiannual interest rate period equal to an issue price of \$12.50. (We do so even though the lowest actual denomination for a bond is \$50). We use the value of this hypothetical bond to determine the value of bonds in higher denominations purchased at the same time. The effect of rounding off the value of the \$25 bond increases at higher denominations. This can work to your slight advantage or disadvantage, depending on whether we round the value up or down.

Example: A savings bond rate of 5.07% will result in a newly purchased hypothetical \$25 bond increasing in value after six months to \$12.82, when rounded to the nearest cent. Thus, a \$5,000 bond purchased at the same time as the hypothetical \$25 bond will be worth \$2,564 after six months ($[\$5,000 \div \$25] \times \$12.82 = \$2,564$). In contrast, if it applied directly to a \$5,000 bond,

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the rate would render a value of \$2,563.38 after six months, a difference of 62 cents. (Please note that this example doesn't include any discussion of the three-month interest penalty that applies if you redeem a bond less than five years after its issue date.)

Redemption. You may not redeem a bond until six months after its issue date.

Interest Penalty for Early

Redemption. If you redeem a bond that is less than five years old, you'll forfeit the three most recent months' interest on that bond. However, the bond's redemption value will never be less than what you paid for it.

Example: Suppose that you purchase a bond in January and decide to redeem it later that year in October. We'll calculate the redemption value as if you had redeemed it three months earlier, in July.

A Few Words about Time Lag.

Depending on the issue month of a bond, there may be a delay between the date of a savings bond rate announcement and the date that the savings bond rate determines interest earnings for the bond. Once the rate begins to apply, it'll continue to do so for the

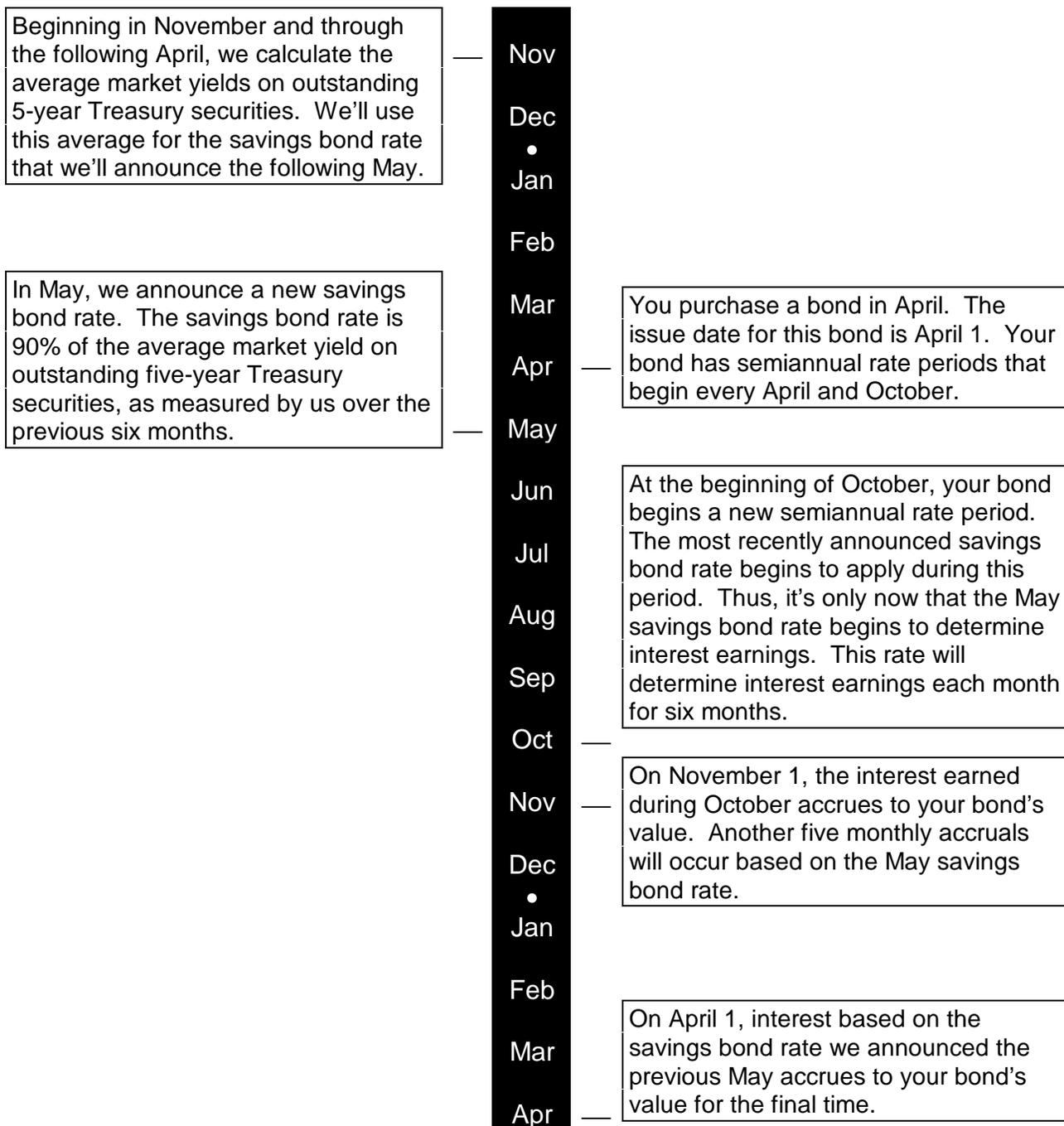
next six months. In addition, interest earned from the rate during any month doesn't accrue to the bond's value until the beginning of the following month.

Example: If you own a bond with an issue date of April 1, the savings bond rate we announce in May won't apply to your bond until October 1, when your bond enters a new semiannual rate period. This savings bond rate will determine interest for the next six months, through March of the following year. Interest earned each month accrues on the first day of the following month.

Thus, in this example your bond will earn its first interest from the May rate in October, and that interest will be credited to your bond on November 1. Your bond will earn interest from the May rate for six months, from October through the following March, so that the last accrual date based upon this rate will be April 1. (Please note that this example doesn't include any discussion of the three-month interest penalty that applies if you redeem a bond before it turns five years old.)

The timeline on the following page may help you understand the above example.

How Time Lag Impacts the Value of a Bond



Note: This timeline example doesn't reflect the three-month interest penalty that applies if you redeem a bond before it turns five years old.

How Is Interest Treated for Tax Purposes?

Taxable Interest. Any increase in the value of your bond above what you paid for it is interest, which may be subject to taxation.

State and Local Taxes. Interest earnings on bonds are exempt from State and local income taxes. However, bonds are subject to State and local estate, inheritance, gift, and other excise taxes.

Federal Taxes. You must pay all Federal taxes imposed by the Internal Revenue Code of 1986 (as amended) on the interest your bonds earn.

Reporting Basis. You may use either the *cash basis method* (deferred reporting) or *accrual basis method* (annual reporting) for reporting interest for Federal income tax purposes. Under the cash basis method, you defer reporting of Federal income tax until the year the bond ceases to earn interest or is redeemed or otherwise disposed of, whichever occurs first. This means that you can't defer reporting Federal income tax on a bond that is no longer earning interest, even if you haven't redeemed the bond. Under the accrual basis, you report interest each year as it accrues. The cash basis method applies unless you choose the accrual basis method by reporting the increase in redemption value as interest each year.

In deciding which method to use, you should consider two additional factors. First, you must use the same method for all Series EE, Series E, or Series I bonds you own or may later purchase. Second, if you elect the accrual basis method, you only may switch to the cash basis method with the permission of the Internal Revenue Service (IRS). (If

you use the cash basis method, you may switch to the accrual basis method without the permission of the IRS.)

Tax-Deferred Exchanges. You may exchange Series EE bonds for Series HH bonds and keep deferring the Federal income taxes you may owe on the interest your Series EE bonds earn for as many as twenty additional years. The minimum HH bond purchase is \$500; that is, the bonds you're exchanging must be worth at least \$500. For more information on this subject, please see 31 CFR part 352. The regulations are available from the Internet site of the Treasury Department's Bureau of the Public Debt, <www.savingsbonds.gov>.

Reissuance. A reissuance (re-registration) of a bond that impacts the rights of any of the persons named on the bond may have a tax consequence. More information on this subject is available in IRS Publication 550, "Investment Income and Expenses." This publication is available at the Internet site of the IRS, <www.irs.gov>.

Education Bond Program. You may be able to exclude from your Federal income taxes all or a portion of a bond's interest if you use the interest to pay for qualified educational expenses. Additional details regarding the education bond program are available in IRS Publication 17, "Your Federal Income Tax," Publication 550, "Investment Income and Expenses," or Publication 970, "Tax Benefits for Higher Education." These publications are available at the Internet site of the IRS, <www.irs.gov>.

Where Can I Find Additional Information?

You can find comprehensive details on the offering, terms, and conditions of Series EE bonds in parts 351 and 353 of title 31 of the Code of Federal Regulations. The regulations deal with various topics not covered in this information statement, including procedures for buying, redeeming, replacing, and reissuing (re-registering) bonds. The regulations and additional

informal guidance on savings bonds are available from the Internet site of the Treasury Department's Bureau of the Public Debt, <www.savingsbonds.gov>. The site also includes a savings bond calculator and a downloadable program called the "Savings Bond Wizard" that allow you to keep track of the current redemption value of all savings bonds you may have purchased since 1941.

Note: *This document is explanatory only. It's not an offer of bonds and doesn't have the force of law. The Code of Federal Regulations provides the offering, terms, and conditions of Series EE savings bonds. This document doesn't supplement or modify the official texts.*

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