

# Private Activity Bond PROGRAM

The Private Activity Bond (PAB) is Guam's tax-exempt bonding authority creating a **lower cost, long-term source of capital** under the *Federal Tax Act of 1986*.

**The Private Activity Bonds available on Guam are as follows:**

## QUALIFIED MORTGAGE BONDS

- Issued to provide mortgage financing for single family residential property
- 95% of net bond proceeds must be loaned to mortgagors
- Mortgagors must be first-time homebuyers and must be for their principal residence
- Purchase price of a residence must not exceed 90% of the average purchase price of all single family residential sales during the last 12 months
- Mortgages must be made to persons whose family income is 115% or less of the applicable median family income

## MORTGAGE CREDIT CERTIFICATE

- Issued by a government agency prior to the financing of a mortgage with a bank
- Issuer elects not to issue PABs and in their place issues mortgage credit certificates to first-time homebuyers
- Certificates can only be issued to first-time home buyers for their primary residence whose maximum annual income may not exceed certain limits

## QUALIFIED REDEVELOPMENT BONDS

- Issued for infrastructure projects that do not qualify for Government bonds
- Typically issued for projects that involve special district financing such as tax incremental financing
- New construction projects are not permitted

## QUALIFIED RESIDENTIAL RENTAL PROJECTS

- Must meet one of two tests (set-aside requirements)
  - 20-50 Test – 20% or more of the residential units in the project must be occupied by individuals whose income is 50% or less of area median gross income (AMGI)
  - 40-60 Test – 40% or more of the residential units in the project must be occupied by individuals whose income is 60% or less of AMGI
- Whichever test is elected applies during the qualified project period, which is the later of 15-years from which 50% of the residential units in the project are occupied or on the date on which no tax-exempt PABs issued with respect to the project are outstanding.

## QUALIFIED ENTERPRISE ZONE FACILITY BONDS

- Issued by a qualified business to finance the cost of commercial, retail or similar facility used by the borrower
- The borrower must be an “Enterprise zone” business
- 95% of the proceeds from the bond issue must be used to finance “qualified zone property”

## EXEMPT FACILITY BONDS

- 1) Sewage Facilities
- 2) Solid Waste Disposal Facilities
- 3) Water Furnishing Facilities
- 4) Facilities for Furnishing of Electric Energy or Gas

- Issued to acquire land and construct new facilities, expand/renovate existing facilities or purchase new equipment
- For facilities that create tangible products and have a strong job creation/retention component.

## FREQUENTLY ASKED QUESTIONS

### **What are Private Activity Bonds?**

*Private Activity Bonds (PABs) are issued by GEDA on behalf of private entities on a tax-exempt basis to stir economic development.*

### **Do Private Activity Bonds feature any kind of government funding, or any public guarantee or grant?**

*PABs DO NOT include any governmental guarantee or grant. The bonds are payable strictly from moneys provided by the company for which the bonds are issued, and backed by collateral that is put up by the company.*

### **If there is no government guarantee or grant, then why would a business be interested in financing a project using Private Activity Bonds?**

*If all of the other requirements can be met, interest on some kinds of Private Activity Bonds is exempt from federal income taxes.*

### **Who would invest in or purchase a Private Activity Bond?**

*A PAB is not like a traditional municipal bond, which is payable from governmental revenues like property taxes, sales taxes or utility revenues. Generally, PABs are unsuitable for investment by individuals, and are sold strictly to bank and other institutional investors.*