

Chapter Assignments:

Please see *Introduction to Bonds Assignment* (10 points)

Due: Tue/Thu Apr 24th; Online: Apr 26th

Chapters:

Interest Rates (Chapter 9)

Corporate Bonds (Chapter 18)

Government Bonds (Chapter 19)

Mortgage-Backed Securities (Chapter 20 – web site only)

Introduction to Bonds (Lecture Notes)

Chapter Terms:

“debt” – “debt financing” – “debt capital” – “fixed” – “fixed-income” – “loaner”

interest & repayment of principal

corporate bonds, municipal bonds, Federal government bonds (a.k.a. Treasury bonds, T-bonds, “Treasuries”)

trust indenture (a.k.a. bond indenture, indenture)

trustee

protective covenants

convertible bonds (more about convertibles later)

inverse relationship of bond prices and interest rates

when interest rates fall, bond prices rise – when interest rates rise, bond prices fall

bonds *versus* stocks

risks: interest rate risk, purchasing power risk, business / financial risk, liquidity risk, call risk (prepayment)

nominal rate (a.k.a. “coupon rate”) *versus* current yield *versus* yield to maturity

face value (a.k.a. par value, normally \$1,000 denominations)

maturity dates

term bonds *versus* serial bonds *versus* sinking fund

bonds *versus* notes

call provision, call premium, put provision (unusual)

par value (a.k.a. “par”) *versus* premium *versus* discount

Treasury Bonds & Notes (*versus* Treasury Bills)

TIPs – Treasury Inflation-Indexed Obligations

agency bonds (examples: Fannie Mae, Freddie Mac, Ginnie Mae, Sallie Mae)

mortgage bonds (a.k.a. mortgage-backed bonds, mortgage-backed securities)

collateralized mortgage obligations

municipal bonds (general obligation bonds – “GO’s”, revenue bonds, special tax bonds)

tax-exempt yield *and* taxable equivalent yield [$\text{municipal bond yield} / (1 - \text{marginal tax bracket})$]

double tax-exempt [$\text{municipal bond yield} / \{ 1 - (\text{Fed rate} + \text{State rate} * [1 - \text{Fed rate}]) \}$]]

corporate bonds

senior bonds *versus* junior bonds

debentures *versus* subordinated debentures

income bonds

zero-coupon bond

“junk bonds” (a.k.a. high yield bonds)

foreign bonds

bond ratings

bond trading *and* bond quotes