

1) Why do corporations sell bonds?

When corporation need some fund or want to raise some amount of money, they can issue or sell the bonds. Since the bond's function is similar to loan. The bondholder or investor will agree to give the corporation a specific amount of money for a certain period of time. And, the corporation will do the same job as borrower that gives the interest or coupon in return till the maturity.

2)What are the differences among a debenture, a mortgage bond, and a subordinated debenture?

There are two categories of bonds: secured and unsecured. The mortgage bond is secured bond, as it is backed by collateral, which can be any type of asset related to a mortgage. So in the case of default, the holder will be able to foreclose the asset. In contrast, the debenture is unsecured bond. There is no use of collateral. This means that the mortgage bond is safer than the debenture. The denture and subordinated debenture have the same characteristics. The only difference is the subordinated payment or junior debt.

3)Why would an investor purchase a convertible bond or a high-yield bond?

Most of the bonds in this world are basically IOUs. The issuer has the same job as borrower that havs to pay holder the interest in return. But, convertible bonds have different characteristic from those that investor can covert the bonds into common stock. When the stock's price increse until it is worth, investor can gain the profit or "conversion premium". Therefore, it means that the investor have a chance to make more money, which it will be interesting for him or her.

4)Describe three reasons a corporation would sell convertible bonds

First, the corporation can safe the cost on interest rate payment. This is because the convertible bonds have lower yields than traditional bonds. Second, issuing the convertible bonds does not account as a debt on company's balance sheet. Third, the corporation can get a benefit on tax deductible because of the interest payments.

5)Explain the methods that corporations can use to repay a bond issue

Usually, there are three methods that the corporations use to repay the bond issue. First, the company can issue serial bonds, which are bonds of a single issue that mature on different date. Second, sinking fund is a sum of money to which deposits are made each year for the purpose of redeeming a bond issue. Third, trustee is an individual or an independent firm that acts as a bond owner's representative.

