

1 Why do corporations sell bonds?

Corporations issue bonds for several reasons then we can analysis as follow.

First , Provides corporations with a way to raise capital without diluting the current shareholders' equity.

Second, With the bonds, corporations can often borrow at a lower interest rate than the rate available in banks. By issuing bonds directly to the investors, corporations can eliminate the banks as "middlemen" in the transactions. Without the intermediaries, the borrowing process becomes more efficient and less expensive.

Third, By issuing bonds, corporations can often borrow money for a fixed rate for a longer term than it could at a bank. Most banks will not make fixed rate loans for longer than five years because they fear losing money if their cost of funds (raised by selling CDs, savings accounts, and the like) rises to a higher rate than long-term loans. Most companies want to borrow money for long terms and so elect to issue bonds.

Fourth, The bond market offers a very efficient way to borrow capital. By issuing bonds, the borrower is spared the task of undergoing numerous separate negotiations and transactions in order to raise the capital it needs.

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

A mortgage bond is one type of secured bond because this bond is backed by collateral. The collateral is real estate or some type of property that is subject to a mortgage. In case that bond default, you can sell the property that are tied to the bond to collect your investment. Due to their direct claim on company assets, a mortgage bond is a safer investment with a lower risk of default than a debenture bond.

A debenture, or unsecured bond that does not backed by property. The bond issuer's credit standing to supports the promise that the bond's payment terms will be met. Debenture bonds will be issued when a company does not have enough assets to serve as collateral. If a company is well established and has a high credit rating, issuing debenture bonds is an easy way for them to raise funds. Debenture bonds usually come with more risk than mortgage bonds and this bond will pay a higher interest rate to investors because if a company liquidates, debenture bondholders are paid after mortgage bondholders.

The major difference between mortgage bonds and debenture bonds is collateral. The mortgage bond is collateralized by something that has value and can be sold to pay the bondholders. if the company defaults on payment of that bond or goes through bankruptcy. Debentures have no such

collateralization. They are unsecured debt, backed only by the full faith and credit of the issuing company. If investors receive only the issuer's promise to pay, they typically require a higher interest rate than they would require to buy a collateral-backed bond.

Subordinated debenture bond is one type of unsecured bond, in the case of liquidation, the Subordinated debenture is prioritized lower than other classes of debt. A subordinated debenture bond is an unsecured loan, which has no collateral. Should the issuer be liquidated, all other bonds and debts must be repaid before the subordinated debenture bond is repaid. This type of debt carries higher risk, but also pays higher interest than other types.

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

A convertible bond is a bond that can be converted into a pre-determined number of shares of stock. This would happen during the life of the bond. The number of shares it can be converted to is determined by the issuer of the bond. Then convertible bonds are an attractive investment. They offer the for potential market appreciation like an equity. They also offer the conservative nature and safety of a bond. A convertible bond pays you interest and gives you the option to convert it to shares of stock.

4. Describe three reasons a corporation would sell convertible bond.

First reason. To lower the coupon rate on debt , Investors will accept a lower coupon rate on a convertible bond, compared with the coupon rate on an otherwise identical regular bond, because of its conversion feature. This enables the issuer to save on interest expense, which can be substantial in the case of a large bond issue.

Second reason, To delay dilution: Raising capital through issuing convertible bonds rather than equity allows the issuer to delay dilution to its equity holders. A company may be in a situation where it prefers to issue a debt security in the medium term, but is comfortable with dilution over the longer term because it expects its net income and share price to have grown substantially over this time frame. In this case, it can force conversion at the higher share price (assuming the stock has indeed risen past that level).

Third reason, Bond interest is a tax-deductible expense for the issuing company, for a corporation in the 35 percent tax bracket, the federal government effectively pays 35 percent of the interest charges on the debt through the deduction.

5.Explain the methods that corporation can use to repay a bond issue.

When corporations want to repay a bond that they issued then they have 2 choices to choose. The first choice is sinking fund, the company are required to reserve some amount of funds in a saving account periodically to meet the amount that the company needs to repay the principal. The second choice is serial bonds. The company have to issued bonds with different maturity at the same time to allow the company to repay principal back in different time with divided amounts.