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1. Why do corporations sell bonds?

Corporations sell bond when to obtain financing. A bond functions like a loan between an investor and a corporation. The investor agrees to give the corporation a specific amount of money for a specific period of time in exchange for periodic interest payments at designated intervals. When the loan reaches its maturity date, the investor’s loan is repaid. Corporations can borrow at a lower interest rate than the rate in bank and people also enjoy a higher saving rate .

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

Debenture is a medium to long term debt instrument used by large companies to borrow money, at a fixed rate of interest. A debenture is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. A debenture is a type of bond that does not use collateral. It's otherwise recognized as any unsecured long-term debt. Because the bonds are unsecured, it's imperative for the issue to be profitable for the corporation. Because of its lack of collateral this makes the bond more risky. This risk means the bond should pay a higher interest rate in order to compensate for the risk. The greater the risk the greater the interest rate should be because the issue does not have collateral to pay in case the corporation is not profitable

A mortgage bond is a bond secured by a mortgage on one or more assets. These bonds backed by real estate holdings or real property such as equipment. In a default situation, mortgage bondholders have a claim to the underlying property and could sell it off to compensate for the default. Mortgage bonds offer the investor a great deal of protection in that the principal is secured by a valuable asset that could theoretically be sold off to cover the debt. However, because of this inherent safety, the average mortgage bond tends to yield a lower rate of return than traditional corporate bonds that are backed only by the corporation's promise and ability to pay.

Subordinated debt is a loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. In the case of default, creditors with subordinated debt wouldn't get paid out until after the senior debt-holders were paid in full. Therefore, subordinated debt is more risky than unsubordinated debt. A subordinated debenture is similar in character however in this case they are payed as a subordinate issue. This leaves the subordinate debenture acting as a junior debt to the more senior debenture in case of insolvency. As you might imagine these issues, although linked to the debentures, pay a higher interest rate.

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

Because convertible bond is a bond that can be converted into a predetermined amount of the company's equity at certain times during its life. For, Convertible bonds are usually issued offering a higher yield than obtainable on the shares into which the bonds convert. Convertible bonds are safer than preferred or common shares for the investor. They provide asset protection, because the value of the convertible bond will only fall to the value of the bond floor. At the same time, convertible bonds can provide the possibility of high equity-like returns.

For, Investor purchases a high-yield bond because they offer a higher payout compared to traditional investment grade bonds. If the company who issues the bond improves their credit standing, the bond may appreciate as well**.** Bondholders get paid out before stockholders when a company fails. They offer a higher payout than traditional bonds but are a more dependable ROI than stocks.

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

Lower fixed-rate borrowing costs. Convertible bonds allow issuers to issue debt at a lower cost. Moreover, convertible bonds have a lower yield than traditional corporate bond, a convertible bond at issue yields 1% to 3% less than straight bonds.

Tax-deductible or Tax advantages. When selling convertible bond, amount issued doesn't appear on company's balance sheet as a debt. The tax advantage is greatest with mandatory convertibles. Effectively a high tax-paying shareholder can benefit from the company securitizing gross future income on the convertible, income which it can offset against taxable profits.

Voting dilution deferred. With a convertible bond, dilution of the voting rights of existing shareholders only happens on eventual conversion of the bond. However convertible preference shares typically carry voting rights when preference dividends are in arrears. Of course, the bigger voting impact occurs if the issuer decides to issue an exchangeable rather than a convertible.

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

A callable bond is a type of bond that allows the corporation can repay a bond issue if it is a callable bond, which are often issue when interest rate are high before the maturity date. Corporation can retire high interest bonds are issue new bonds with lower interest rate payment after market interest rate falls down, Callable bonds offer an advantage to the issuing company and not the investors.

A sinking fund is a fund in which the company makes annual or semi-annual deposits over the life of the bond. The money is used to redeem the bonds at maturity. Sinking fund is another way for the company to save up the money to repay the bonds. This makes the bond safer, and they generally have a lower interest rate than bonds without a sinking fund.