

# Valuing Bonds

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## Chapter 7



# Bonds

- ❖ Loans issued by corporations, US Treasury, and state and local governments
- ❖ Also known as fixed income securities – produces a fixed income stream
- ❖ Requires regular interest payment and eventually repayment of principal
- ❖ Indenture agreement outlines the precise terms between the issuer and the bondholder



# Bonds

## Terminology

- ❖ Bond - Security that obligates the issuer to make specified payments to the bondholder.
- ❖ Coupon - The interest payments made to the bondholder.
- ❖ Coupon Rate - Annual interest payment, as a percentage of face value.
- ❖ Par Value or Face Value – the principal loan amount that the borrower must repay