



Callable versus Noncallable Bonds

- **Callable Bonds (Redeemable Bond):**
 - Owns the right to repay the face value of the bond at its pre-agreed value prior to when the bond matures
 - Usually riskier than non-callable bonds
 - A bond that the issuer may redeem before it reaches the stated maturity date
 - Allows the issuing company to pay off their debt early
 - A business may choose to call their bond if market interest rates move lower, which will allow them to re-borrow at a more beneficial rate
 - Callable bonds offer a more attractive interest rate or coupon rate due to their callable nature
 - An issuer may choose to call a bond when current interest rates drop below the interest rate on the bond
 - Redemptions
 - Optional redemption
 - Allows the issuer to redeem the bonds
 - Sinking Fund redemption
 - Requires the issuer to regularly redeem a fixed portion or all the bonds in accordance with a fixed schedule
 - Callable bonds can be repurchased before the maturity date
 - Are called when interest rates decline appreciably and have a call price as time passes
 - It is typically called at a value that is slightly above the par value of the debt
 - The earlier in a bond's life span that it is called, the higher its call value will be
 - Most municipal bonds and some corporate bonds are callable
 - Callable bond (Only at a premium)
 - Bond with an option on it
 - If interests rates go down, you can refinance your debt on a lower interest rate
 - Yield to call
 - FV: call par value
 - PV
 - N
 - PMT
- **Noncallable Bonds**
 - Can't call the band prior to its date of maturity

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Callable versus Noncallable Bonds

- A financial security that cannot be redeemed early by the issuer except with the payment of a penalty
- Locks the interest rate it will pay until the security matures
- If interest rates decline, the issuer must continue paying the higher rate until the security matures
- Only paid out at maturity
- Interest payments of non-callable bonds are guaranteed until their maturity

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