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Relation between coupon, yield and price

- Coupon rate < required yield -> price <par (discount bond)
- Coupon rate = required yield -> price = par
- Coupon rate > required yield -> price > par (premium bond)

- Premium Bond
- Coupon Rate>Current Yield>Yield to Maturity

- Discount Bond
- Coupon Rate<Current Yield<Yield to Mat

Call Premium

- The amount of money that the issuer must pay the owner of the bond when the bond is called
- The amount is above the par value of the bond
- Issuers usually call outstanding bonds when interest rates have dropped and they are able to issue new bonds at lower rates of interest

- The call premium of a bond refers to the amount: D
  - An investor must pay to buy a callable bond
  - The issue must pay to exercise the call privilege
  - The issuer must add to the semiannual interest payments to offset the call feature
  - Added to the price at issuance to compensate for the call privilege

Types of Mortgage-Backed Securities

- **Pass-through certificates**
  - Would provide investors with a monthly income
- **Treasury STRIPS are a form of zero-coupon bonds that do not pay any income until they mature**
- **Treasury notes pay interest twice a year**
- **Common stock do not always pay dividends and, if they d, they are usually paid quarterly**

- **Which of the following securities would you recommend to investors who need monthly income?** B
  - Treasury STRIPS
  - GNMA pass-through certificates
  - Treasury notes
  - Common stocks

Agency Securities

- **Some examples of government-sponsored enterprise are:**
  - Federal Farm Credit Banks (FFCBs)
  - Federal Home Loan Banks (FHLBs)
  - Student Loan Marketing Association (SLMA or Sallie Mae)

- **All the following securities are backed by the U.S. government EXCEPT:**
  - Government National Mortgage Association Certificates C
  - Treasury bills
  - ~~c~~ Student Loan Marketing Association certificates
  - Treasury bonds