



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)
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- > **Premium Bond**
 - > Coupon Rate > Current Yield > Yield to Maturity
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- > **Discount Bond**
 - > Coupon Rate < Current Yield < Yield to Mat

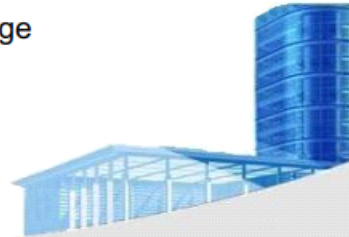




Call Premium

- > 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 issuer 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 do, 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:** C
 - Government National Mortgage Association Certificates
 - Treasury bills
 - e – Student Loan Marketing Association certificates
 - Treasury bonds