Module 6 – (ch24) Debt Financing

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Note: This summary will be delivered **in printed form only**. No PDF version is available.

Overview: This summary covers the key points from Ch. 24 of *Berk & DeMarzo*.

1) **Corporate Debt**:
Public debt is issued via **prospectus** and managed by a **trust company**. Types: **unsecured debt** (e.g., notes) and **secured debt** (e.g., mortgage-backed bonds).

2) **Bond Types**:

   a) **Seniority**: Determines bondholder claims; **subordinated debentures** have lower priority than **senior debentures**.

   b) **Bonds**: **Domestic** (e.g., Yankee Bonds) and **Foreign Bonds** (e.g., Eurobonds).

   c) **Private Debt**: Includes **syndicated loans** and **lines of credit**.

3) **Other Types of Debt**:

   a) **Sovereign Debt**: Issued by governments (e.g., **U.S. Treasury securities**).

   b) **Municipal Bonds**: Tax-exempt bonds issued by local governments.

4) **Bond Covenants**:
Restrictive clauses in bond contracts, such as limits on dividends, additional debt, and financial ratios.

5) **Repayment Provisions**:

   a) **Callable bonds**: Issuers can repurchase bonds at a set price.

   b) **Sinking Funds**: Periodic repurchases to reduce debt.

6) **Convertible Bonds**:
Bonds that can be converted into stock, based on a **conversion ratio** and **price**.

7) **Ratings**:
Credit ratings assess **default risk** and impact bond yields. Agencies like **Moody's**, **S&P**, and **Fitch** assign ratings.

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