

Module 6 – (ch24) Debt Financing

Henrique C. Martins - henrique.martins@fgv.br

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:

- Seniority: Determines bondholder claims; subordinated debentures have lower priority than senior debentures.
- Bonds: Domestic (e.g., Yankee Bonds) and Foreign Bonds (e.g., Eurobonds).
- Private Debt: Includes syndicated loans and lines of credit.

3) Other Types of Debt:

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

- Callable bonds: Issuers can repurchase bonds at a set price.
- 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.



Module 6 – (ch24) Debt Financing Scan to Access Online Class Resources

