Chapter 7

Corporate Debt Instruments

Types - bonds, medium-term notes, commercial paper, asset-backed securities

Classification - utilities, transportation, industrials, banks and finance companies

Features
  - Indenture - covenants
  - Security
  - Debenture
  - Call/Refund
    - Make-whole premium as call penalty
  - Accrued interest
  - Ratings
    - Quality of management
    - Collateral
    - Covenants
  - Default Rates
  - Event Risk

High-yield
  - LBO
  - Deferred coupon
  - Step-up
  - Payment-in-kind

Secondary Market
  - Private placements

High-yield performance
  - Promised yield against Treasury promised yield
  - Realized yield spreads
  - Individual risk versus portfolio risk
Medium-term notes
  Flexibility
  Shelf-offering

Commercial Paper

  Maturity
  Rolling over
  Default Risk
  Tier 1 and Tier 2
  Placement - directly or dealer-placed
  Weak secondary market
  Discount yield

Distribution on default
  Liquidation versus reorganization

  Absolute Priority: often doesn’t hold in reorganization
    Incentive hypothesis - longer discussion go on the greater the
    Incentive to give something up
  Recontracting process hypothesis
  Stockholders influence
  Strategic bargaining process - too complex