Millions – college essay

As a financial manager of a large firm, you plan to borrow $70 million over the next year. 1) What are the most likely ways in which you can borrow $70 million? The best way the company must do in order to borrow $70 million over the next year is by issuing bonds to financial institutions such as mutual funds and insurance companies. As to attract investors, issuing bonds is seems to be less risky than shares and they may be willing to purchase them.

The investors will invest a specific amount of money in the company for a specific period of time and they will get interest payment from the company in return. When the bond matures, the bondholders will be repaid at the original price of the bonds they have bought before. The company who in need of funds can continue issuing more bonds because it has no effect on ownership of the assets or even the company. The bondholders also have no voting rights. Therefore, the company can control a large asset by using investors’ money instead of its own.

If the asset ends up being profitable, all of its earnings minus the interest will increase the company’s financial position since the bondholders do not entitle to get any profit made by the company. However, if the company decides to issue more shares, the ownership of the company spread across a larger number of investors, which makes shareholders earn less dividends and gains in the value of the assets which belong to them. In fact, the interest on bonds is deductible on the company’s income tax return, while dividend on shares is not tax-deductible.) Assuming that you decide to issue debt securities describe the types of financial institutions that may purchase these securities. Financial institutions that usually purchase debt securities issued by the company re investment companies, pension funds and the insurance companies. Investment companies professionally operate to pool money from general public or individual investors and direct the savings into debt securities by purchasing all those securities.

Pension funds institution acts as a long-term investor that mainly protects individuals and families against loss of income in their retirement years by allowing employees to set aside certain amount of salaries so that the institution can invest a portion of their current income to purchase debt securities. All returns and earnings n the investment are belong to the employees and will be received when retirement age is reached.

Insurance companies help firms to manage risk and preserve their wealth within an organization by buying debt securities so that the firm can operate systematically and profitably. Basically, the life insurers invest their funds in long- term debt securities because they actually want to go for income certainty and safety of principal in their investments. Besides, other financial institutions such as commercial banks and savings institutions may also purchase debt securities if they are willing to.