# Financial management

Finance

Bonds issues are one way that firms are able to raisemoneytofinancetheir different projects, specifically long term projects. A bonds issue provides creditors with bonds certificate that allow them to earn fixed interest till the date of maturity along with the principle amount. Most companies prefer issuing bonds over taking loans from banks because they feel that loans are more restrictive and expensive. The difference between issuing bonds and issuing stock is that stock holders have ownership while bonds issue liability for the company.

The bonds that company issues sometimes have a call or a refund provision for the benefit of the issuer. These are some characteristics or features that are available when bonds are issued. ( Frederick Lownhaupt, 2008) The issuer of the bonds that is, the person who lends to the organization often looks for the option of call or refund provision. This means that an issuer has the right to call or redeem sum amount or the entire debt or loan at a date before maturity. As an issuer I would want to have that option for several reasons but the most important reason is that the issuer needs to secure his or her interest.

If the right is unavailable, the issuer may be getting lower rate of interest over the principle in the future when interest rates may have gone up, this results in lower returns than the issuer could actually get if he or she reinvested that amount with the current interest rate. Basically the companies impose a provision that denies the issuer the right to redeem the bonds ten or so years of the date of issue. There is however a difference between call protection and refund protection.

call protection is absolute which means that the issuer cannot redeem the bonds at all till the time of maturity, in refund protection only give you protection from one kind of redemption. This is why many organization suffer losses, it's because thy do not understand the difference between a call protection and a refund protection. In refunding, the issuer is effused the right to redeem the bonds for the first ten years of the date they were issued with the money that is earned through issuing debt obligations that have a lower cost that are ranked either equal to or superior than the debt that the issuer wants to redeem.

(Frank Fabozzi, 2001) if I am an issuer, I would want call or refund protection because, as a company I have made an agreement to pay a fixed interest rate till the day the loan is going to mature, if the issuer is allowed to redeem the loan whenever the wish, it will be costly for me to issue new bonds as the interest rate will be higher than before and other costs that involve in issuing bonds such as fee to brokers and dealers and other relative costs. if I have issued the bonds I would like the protection or call and refund provision because that would save me a lot of cost for at least ten years or more till the time the bonds mature.

it would also give me a certainty that there will be no cash flow problems for the project or the plan that the bonds were issued for. Even if I give the issuer the right to redeem, the bonds will be called on a premium for the protection and benefit of the one who has issued the bonds. Conclusion Therefore it is important for the issuer of bonds to have this privilege or right so that it secures the investment and time spent in issuing the bonds and also reduces or protects them from the cost of reissuing new bonds.

References

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