Floating Rate Bond and Other kinds of bonds

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What are Floating Rate Bonds?

- Floating rate bonds, also known as floating rate notes, are a type of bond characterized by floating rate of interest.
- Unlike traditional bonds that pay a fixed rate of interest, floating-rate bonds have a variable rate that resets periodically.
- The frequency at which the yield of a floating rate note resets can be daily, weekly, monthly, or every three, six, or 12 months.

Advantages and disadvantages of floating rate bonds

- The advantage of floating-rate bonds, compared to traditional bonds, is that interest rate risk is largely removed from the equation.
- While an owner of a fixed-rate bond can suffer if prevailing interest rates rise, floating rate notes will pay higher yields if prevailing rates go up.
- As a result, they will tend to perform better than traditional bonds when interest rates are rising.
- However, investors in floating-rate securities will receive lower income if rates fall because their yield will adjust downward.
- Also, investors in individual floating rate bonds lack certainty as to the future income stream of their investments.

Other kinds of bonds

- **Fixed rate bond:** It is a bond that pays the same level of interest over its entire term. An investor who wants to earn a guaranteed interest rate for a specified term could purchase a fixed rate bond in the form of a Treasury, corporate bond, municipal bond, or certificate of deposit (CD)

- **Mortgage bond:**This kind of a bond is secured by mortgage, or a pool of mortgages, that are typically backed by real estate holdings and real property, such as equipment
- **Zero Coupon bond:** It is a debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full face value.
- **Serial bond:** It is a bond issue that is structured so that a portion of the outstanding bonds mature at regular intervals until all of the bonds have matured. These bonds are used to finance projects that provide a consistent income stream for bond repayment
- **Callable/redeemable bond:** It is a bond that the issuer may redeem before it reaches the stated maturity date. A callable bond allows the issuing company to pay off their debt early
- **Extendable bond:** It is a long-term debt security that includes an option to lengthen its maturity period. Because these bonds contain an option to extend the maturity period, a feature that adds value to the bond, extendable bonds sell at a higher price than non-extendable bonds