

Shareholder gains from callable-bond refundings

Douglas R. Emery, Wilbur G. Lewellen

First published: 1990

<https://doi.org/10.1002/mde.4090110108>

Citations: 2

Abstract

A re-examination indicates that current procedures for measuring the benefit realized by shareholders when a firm calls and refunds an outstanding debt obligation are mis-specified. The key to a proper measurement is found to lie in the identification of the extinguished remaining-time-to-maturity value of the exercised option on the called debt. A simple procedure for assessing that value is provided and incorporated into a corrected measure of the gains from a callable-bond refunding.

References

A. Barnea, R. Haugen and L. Senbet (1980). A rationale for debt maturity structure and call provisions in the agency theoretic framework. *Journal of Finance* 35, December, 1223–34.

[Web of Science®](#) | [Google Scholar](#)

Z. Bodie and R. Taggart (1978). Future investment opportunities and the value of the call provision on a bond. *Journal of Finance* 33, September, 1187–1200.

[Web of Science®](#) | [Google Scholar](#)

O. Bowlin (1966). The refunding decision: another special case in capital budgeting. *Journal of Finance* 21, March, 55–68.

[Web of Science®](#) | [Google Scholar](#)

W. Boyce and A. Kalotay (1979a). Optimum bond calling and refunding. *Interfaces* 9, November, 36–49.

[Web of Science®](#) | [Google Scholar](#)

W. Boyce and A. Kalotay (1979b). Tax differentials and callable bonds. *Journal of Finance* 34, September, 825–38.

[Web of Science®](#) | [Google Scholar](#)

M. Brennan and E. Schwartz (1977). Savings bonds, retractable bonds, and callable bonds. *Journal of Financial Economics* 5, August, 67–88.

[Web of Science®](#) | [Google Scholar](#)

I. Brick and B. Wallingford (1985). The relative tax benefits of alternative call features in corporate debt. *Journal of Financial and Quantitative Analysis* 20, March, 95–105.

[Web of Science®](#) | [Google Scholar](#)

K. Dunn and C. Spatt (1984). A strategic analysis of sinking fund bonds. *Journal of Financial Economics* 13, September, 399–423.

[Web of Science®](#) | [Google Scholar](#)

E. Elton and M. Gruber (1972). The economic value of the call option. *Journal of Finance* 27, September, 891–901.

[Web of Science®](#) | [Google Scholar](#)

D. Emery and W. Lewellen (1984). Refunding non-callable debt. *Journal of Financial and Quantitative Analysis* 19, March, 73–82.

[Web of Science®](#) | [Google Scholar](#)

J. Finnerty (1986). Refunding discounted debt: a clarifying analysis. *Journal of Financial and Quantitative Analysis* 21, March, 95–106.

[Web of Science®](#) | [Google Scholar](#)

J. Franks and S. Hodges (1978). Valuation of financial lease contracts: a note. *Journal of Finance* 33, May, 657–69.

[Web of Science®](#) | [Google Scholar](#)

A. Kalotay (1981). On the management of sinking funds. *Financial Management* 10, Summer, 34–40.

[Web of Science®](#) | [Google Scholar](#)

W. Lewellen and D. Emery (1981). On the matter of parity among financial obligations. *Journal of Finance* 36, March, 97–111.

[Web of Science®](#) | [Google Scholar](#)

W. Lewellen and A. Rosenfeld (1987). Optimal bond refunding strategies. *Managerial and Decision Economics* 8, September 243–50.

[Web of Science®](#) | [Google Scholar](#)

M. Livingston (1980). Bond refunding reconsidered: comment. *Journal of Finance* 35, March, 191–5.

[Web of Science®](#) | [Google Scholar](#)

M. Livingston (1987). Measuring the benefit of a bond refunding: the problem of nonmarketable call options. *Financial Management* 16, Spring, 38–40.

[Web of Science®](#) | [Google Scholar](#)

A. Ofer and R. Taggart (1977). Bond refunding: a clarifying analysis. *Journal of Finance* 32, March, 21–30.

[Web of Science®](#) | [Google Scholar](#)

G. Pye (1966). The value of a call option on a bond. *Journal of Political Economy* 74, March–April, 200–205.

[Web of Science®](#) | [Google Scholar](#)

S. Schaefer and E. Schwartz (1987). Time-dependent variance and the pricing of bond options. *Journal of Finance* 42, December, 1113–28.

[Web of Science®](#) | [Google Scholar](#)

J. Thatcher (1985). The choice of call provision terms: evidence of the existence of agency costs of debt. *Journal of Finance* 40, June, 549–61.

[Web of Science®](#) | [Google Scholar](#)

J. Vu (1986). An empirical investigation of calls on nonconvertible bonds. *Journal of Financial Economics* 16, June, 235–65.

[Web of Science®](#) | [Google Scholar](#)

J. Yawitz and J. Anderson (1977). The effect of refunding on shareholder wealth. *Journal of Finance* 32, June, 1738–46.

[Web of Science®](#) | [Google Scholar](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)
[Terms of Use](#)
[About Cookies](#)
[Manage Cookies](#)
[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)
[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)
[Training and Support](#)
[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)
[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)
[Wiley Press Room](#)