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What Do We Learn from Call Provision Terms?

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Abstract


I investigate the determinants of whether a fixed-price callable corporate bond is callable at par or at a premium. I first show that something as simple as the time-series ratio of par to premium-callable bonds is highly dependent on whether one is using SDC, FISD or Bloomberg as a data source. Using FISD, which has the most comprehensive coverage of no-investment grade debt, I find that par-callable bonds are almost exclusively utilized by financial issuers in shorter term and smaller debt offerings that are often shelf-registered. Controlling for those factors, I find that call premiums are chosen in ways that support agency theoretic, asymmetric information, and tax arbitrage models of optimal call premiums.

Keywords: call provision, callable, call premium

JEL Classification: G32

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