BOND VOCABULARY

Default: Failure to pay principal or interest when due. Defaults can also occur for failure to meet non-payment obligations, such as reporting requirements, or when a material problem occurs for the issuer, such as a bankruptcy.

High-Yield Bonds: To attract investors, the issuers of these bonds pay a higher rate of interest than investment grade bonds with the same maturity. They are rated below investment grade bonds and are also called "Junk Bonds."

Issuer: An entity which issues and is obligated to pay principal and interest on a debt security.

Interest rate: Compensation paid or to be paid for the use of money. Interest is generally expressed as a percentage rate. (Also referred to as coupon rate)

Investment Grade Bonds: Bonds that are sold by a very reliable issuer, the government, a large corporation, or a government agency that is most likely to repay the loan and the interest as promised.

IOU: Means exactly as it sounds, "I Owe You." It is an acknowledgement of a debt.

Maturity: The date when the principal amount of a security is payable.

Par value: The principal amount of a bond or note due at maturity. (Also referred to as face value)

Prepayment: The unscheduled partial or complete payment of the principal amount outstanding on a mortgage or other debt before it is due.

Principal: The face amount of a bond, payable at maturity. (Also referred to as face or par value)

Trade date: The date when the purchase or sale of a bond is transacted.