Face value, coupon and maturity of bonds

Investing in bonds can be tricky in today's market. Here's a look at some terminologies that will make it easier for you.

It is essential to understand basic terminologies like face value, coupon and maturity of bonds before investing in the debt market. An elaboration of these terms is given below.

Face value

When a bond is issued, the price paid for it is called the face value of that bond. This is the amount the issuing company owes the investor at the time of maturity. The investor typically gets a fixed interest for the period he holds the bonds.

Since bonds are governed by market fluctuations, the selling price of the bond may be lower or higher than the face value at the time of maturity. If sold at a higher price than their face value, bonds are said to be selling at a premium. The ones that are sold below their face value are termed as being sold at a discount.

Coupon

Coupon is the periodic interest payment that the investor receives. Coupon rate refers to the rate of interest offered by the issuing company, calculated as a percentage of the face value of a bond. While most bonds offer interest on your investment, there are some like zero-coupon bonds that offer discount on the face value of the bond instead of paying interest.

Maturity of bonds

Maturity of a bond indicates the date on which the investor gets back his principal amount. Usually, the bond maturity period ranges from one day to 30 years, depending on the type of bonds issued. Short-term investment in bonds generally has a lower rate of return than mid and long-term investments.

Understanding these terminologies through an example is much simpler. Say for instance a company issues a bond of Rs 10,000 for a tenure of 5 years, providing an interest of 10 percent every year. In this case, the face value of the bond is Rs 10,000, coupon rate is 10 percent and the maturity period is 5 years.