



**Chapter 8: Promissory Notes,
Treasury Bills, & Demand Loans**

| | Promissory Note | Treasury Bill/T-bill | Demand Loan |
|----------------------|--|--|---|
| Issued by | Banks, companies, individuals, etc. | Federal government/provincial government | Banks |
| Face Value | Sum of money borrowed (present value) | Maturity value - in denominations of \$1,000 ; 5,000 ; 25,000 ; 100,000 or 1,000,000 | Present value of money borrowed |
| Term | Specified by due date/date of maturity Usually given in months (ex. 6 month note) but days must be calculated | 91 days, 182 days, or 364 days | Full or partial payment can be demanded at any time |
| Interest Rate | Specified rate at which loan accrues interest | Not specified, determined by market conditions on purchase date. Also called the "yield" | Varies, not specified |

Promissory notes are a written promise to pay a certain amount of money at a specified rate of interest on a specific due date. The note can be transferred (sold) to another person, company, or bank before its due date. The **face value** of the note is the present value (or principal).

Example: Determine the legal due date, interest period, and maturity value of a promissory note for \$650 dated August 31, 2010 with interest at 6.5% per annum, issued for 6 months.

Solution:

- (1) **Legal due date:** A six month note would come due at the end of February. For 2010 (not a leap year), that is February 28.
- (2) **Interest period:** Use the date function on your calculator to determine the number of days between Aug 31, 2010 and Feb 28, 2011. This should give 181 days.
- (3) **Maturity value of note:** Apply the simple interest equation for future value using the interest rate given (recall: "per annum" means "annually")

$$S = P (1 + it) = \$650 (1 + 0.065 \times (181/365)) = \$660.62$$

Sometimes the payee (lender) of a promissory note sells the note to a bank or finance company before it has matured. This situation is called **discounting**.