

# Treasury, foreign exchange, and trade finance essay sample

[Finance](#)



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BUSTER**

Interest Rate Swaps or Hedging Arrangements must be made within 90 days of closing.

A total of \$100 million must have a term of at least three years and an interest rate not to exceed 12 percent.

Note: term of at least 3 years is insurance for the lender

Scheduled Repayment (in 28 quarterly installments beginning first quarter after 7-21-88):

Installments            1-20 @ 1.75% each

Installments            21-27 @ 5.00% each

Final Installment      28 @ 30%

Prepay is allowed.

Estimated interest rate and inflation forecast:

- 38 low to 7.96 high
- 0 low to 9.0 high
- 5 low to 9.0 high
- 5 low to 8.6 high
- 7 low to 9.0 high
- 2 low to 10.0 high

CRP estimates that it will be able to prepay between \$11 and \$23 million in each of the next 7 years. Scheduled payments are approximately \$14 million per year.

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## SWAPS

Total Annual Interest

$[P(FR)(8)] = \text{Total Annual Interest}$

Total Repayment

$[P(FR)(8) + P] = \text{Total Repayment}$

- 2 year @ 8.36% Treasury Rate and 9.11% Swap Rate = 245,497,500 based on notional amount of \$225,000,000 (Recapitalization Amount Financed)

Total Annual Interest = \$163,980,000

Total Interest and Principal Repayment = \$388,898,000

- 3 year @ 8.43% Treasury Rate and 9.31% Swap Rate = 245,947,500

Amount Issued by Toronto Dominion: \$225,000,000

Total Annual Interest = \$251,370,000

Total Interest and Repayment: \$476,370,000

Installment System:

1-20 @ 1.75% = \$8,336,475

21-27 @ 5% = \$23,818,500

28 (1) @ 30% = \$142,911,000

- 4 year @ 8.55% Treasury Rate and 9.44% Swap Rate = \$246,240,000

Amount Issued by Toronto Dominion: \$225,000,000

Total Annual Interest: \$371,920,896

Total Interest and Principal Repayment: \$596,920,896

Installment System:

1-20 @ 1.75% = \$10,446,115.68

21-27 @ 5% = \$29,846,044.8

28 (1) @ 30% = \$179,076,268.8

CRP makes payments to TD for agreed SWAP arrangement for X number of years un

Toronto

Dominion

Issues Loan

\$225,000,

000.

Ex. SWAP

option 4:

\$225,000,

000 Issued  
by TD -  
CRP, INC.  
repays  
\$596, 920,  
896  
principal  
and  
interest.  
The  
principal  
has a term  
of 7 years  
and the  
interest 4  
years to be  
repaid. The  
recapitalizat  
on financing  
incorporate  
s  
incorporate  
s \$90  
million in  
subordinate

d debt.

- 5 year @ 8. 71% Treasury Rate and 9. 57% Swap Rate = 246, 532, 500

Amount Issued by Toronto Dominion: \$225, 000, 000

Total Annual Interest: \$430, 650, 000

Total Interest and Principal Repayment: \$677, 182, 500

Installment System:

1-20 @ 1. 75% = \$11, 850, 693. 75

21-27 @. = \$33, 859, 125

28 (1)@ = \$203, 154, 750

CAPS

Caps are not an option to consider. The projected interest rates are not of concern. The interest rate and inflation forecast for the next six years is not projected to go above 10. 0% and only be at 10% one time. The cost incurred in obtaining the Caps would be unfruitful due to projections.

Collars

Background:

Option A

Option B

Cap Rate: 11. 00%

Cap Rate: 10. 25%

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Floor Rate: 8.375%

Floor Rate: 8.75%

Up-Front Fee: \$0

Up-Front Fee: \$0

Maturity: 3 years

Maturity: 3 years

## Maximum Option A

Cap Rate 11.00%

+LIBOR (S&amp;R) 2.00

+Amortized Up-Front \$0

All-In Rate 13.00%

## Minimum Option A

Floor Rate 8.375%

+LIBOR (S&amp;R) 2.00

+Amortized Up-Front \$0

All-IN Rate 10.375%

Option A is automatically ruled out because the All-In Rate is above 12% and it is the goal of the company to stay below this rate.

## Collars (cont.)

## Maximum Option B

Cap Rate 10.25%

+LIBOR (S&R)                    2. 00

+Amortized Up-Front            \$0

All-In Rate                    12. 25%

Minimum Option B

Floor Rate                    8. 75%

+LIBOR (S&R)                    2. 00

+Amortized Up-Front            \$0

All-IN Rate                    10. 75%

Collars (cont.)

Option B:

Max. (All-In Rate) (P) = 12. 25% (225, 000, 000) = 330, 750, 000 = 555, 750, 000  
 000 Repayment (principal and interest)

Min. (All-In Rate) (P) = 10. 75% (225, 000, 000) = 290, 250, 000 = 515, 250, 000  
 000 Repayment (principal and interest)

Recommendations

3 Year Swap Plan

- The min. repayment (principal and interest on the collars option B is higher than the 3 Year Swap Plan).
- The interest on Option A in the Collars Strategies is greater than 12%.



- The 3 year SWAP option can be paid off early through maximizing use of the prepay option.

Scheduled Payments (Principal and Interest) Estimated	Pre-Pay Estimated
1-20 @ 1.75% = \$8,336,475 (340,000,000)	17,000,000
21-27 @ 5% = \$23,818,500 (138,000,000)	23,000,000
28 (1) @ 30% = \$142,911,000	-0-

Total Interest and Repayment: \$476,370,000

CRP estimates that it will be able to prepay between \$11 and \$23 million in each of the next 7 years. Scheduled payments are approximately \$14 million per year.

Pro's and Con's of Each Instrument:

#### Swap

- Advantage - no risk to worry about with the interest rates...they are locked in when the agreement is made. These have become very popular.
- Major Disadvantage - Someone defaulting on an agreement when a situation looks a little better on the other side with interest rates compared to what they are locked in for the term of their swap agreement.

## Cap

- Advantage - Provides insurance when interest rates can fluctuate in the market. There is a CAP on what your interest rate will be, thus you are insured against fluctuations in the market.
- Advantage - Offers benefits to both the lender and the contracting party.
- Disadvantage - The price paid for the insurance against fluctuations may not be offset if there are not fluctuations to the company's advantage.

## Collars

- Advantage - Provides the benefit of the Cap protection with no fee.
- Disadvantage - Once the set rate is agreed upon and should the market take sharp downhill climbs...then the company can end up paying a lot of money out in interest lost back to the lender. Could have the potential to be disastrous if the company is not financially prepared for the risks associated with this option.