

# [Columbia river pulp company inc](https://assignbuster.com/columbia-river-pulp-company-inc/)

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CORP. received refinanced approval of its long term debt from Toronto - Dominion Bank (AD Bank) amounting to $200 million based on floating rate. The floating interest rate represents the significant risk that needs to be mitigated through hedging products. There were some hedging products that AD Bank offered to CORP., swaps, caps, or collars, or some combination? There were definite trade-offs between these hedging products In terms of flexibility, interest rate protection, and true cost. Andrew Theatre, Chairman of CORP., had to decide on the amounts and maturities of the various transaction hedging offered.

Issue Business Kraft Market pulp Is a truly global commodity, which prices changing quickly In response to capacity changes, inventory levels, and purchase levels. While market alp is produced in about 25 countries, historically more than two-thirds of world output has come from five northern countries : the united States, Canada, Sweden, Finland, and Norway. One major change in the global pulp market was the mid - sass launch of pulp futures markets . While these markets were not an immediate success, there was enough trading volume to sustain at least market, the Pulped/ Finish Options Exchange.

It was hoped that futures markets, widely used to trade futures in commodity products - such as copper, aluminum, sugar, and coffee - would bring more price stability to the pulp market and even out some of the extreme price fluctuations that have plagued the global market pulp Industry. Price levels for market pulp as shown below : In 1978, CORP. had financed the original cost of the mill from a group of united States insurance companies. The insurance companies was in doubt about the quality of their loans. This was because of the cumulative operating losses over the 1982 - 1986 period which totaling $ 39. 1 million.

CORP. was unable to meet the repayment schedule on the debt. So, in march 1988, CORP. approached Toronto - Dominion Bank (AD Bank) to refinance $200 million of its long term debt. On July 21 , 1988 CORP. received reedit approval from AD Bank Board. CORP. received rationalization financing a $200 million, seven year reducing, revolving term facility and a $25 million operating facility from the syndicate of six international banks. The floating rate borrowing options and bank lending margins were shown below : The use of floating rate debt tofinancefixed assets represents significant risks If the interest rates increased.

The risk can be offset through interest rate swaps, caps, and collars. In order to partially engage ten Tolling rills rate on ten mans ten Dank syndicate had included a positive covenant in the credit agreement which effectively arced the company to lock in fixed rates of interest on its debt. This covenant stated the following : within 90 days after closing, the borrower will arrange interest rate swaps or similar hedging arrangements so that a total of $100 million of debt has a term of at least three years and an interest rate not to exceed 12%.