



## **Acquisition Financing**

**Question Appeared in: ModelOff 2013 Round 1**

**Time Allocated: 40 minutes**

### **INTRODUCTION**

You've been asked to prepare a model to forecast the performance of a multiple tranche debt facility that will be drawn by an investment fund to purchase assets. The facility is only drawn when it is needed to finance the purchasing of an asset in to the fund, and each asset purchased will map to its own tranche in the facility.

### **TRANCHE DETAILS**

The facility is forecast to have 4 tranches. Details of each tranche are given in the table over page.

### **INTEREST BASIS AND TIMING ASSUMPTIONS**

Assume that all interest is calculated on a 30/360 basis on the opening daily balance. All interest rates given are simple annual rates (not effective-annual compounding rates). All cash flows, payment dates and interest accrual dates occur on calendar quarter end dates.



## ModelOff 2013 Questions and Answers

### TRANCHE DETAILS

|   | Tranche 1   | Tranche 2   | Tranche 3   | Tranche 4   |
|---|---|---|---|---|
| <b>Drawdowns</b>  | \$14m on 31 Dec 2013  | \$25m on 31 Dec 2013  | \$10m on 30 Jun 2014<br>\$4m on 31 Mar 2015   | \$22m on 30 Sep 2014  |
| <b>Term length (years from first drawdown of tranche)</b> | 7   | 9   | 4   | 6   |
| <b>Interest rate</b>                                      | 8.25%   | 9.00% during interest only period.<br><br>8.50% during the amortization period.   | 7.45%   | 8.20% for the first two years.<br><br>7.70% for the remainder of the term.  |
| <b>Repayment profile and other details</b>                | Interest is paid every quarter.<br><br>Tranche amortizes quarterly in arrears on a credit foncier schedule (that is, equal total Principal + Interest payments) | Interest is paid every quarter.<br><br>The loan is interest only for the first 5 years, and thereafter amortizes quarterly in arrears via level Principal repayments (the first principal repayment is 5.25 years after drawdown) | Interest is paid every quarter.<br><br>The loan is interest only with a bullet payment at maturity. | Interest is capitalized every quarter for 2 years, and is paid each quarter thereafter.<br><br>The loan (including the capitalized interest) amortizes after the interest capitalization period via 16 equal principal payments, paid quarterly in arrears, with the first payment on 31 December 2016. |