

~~Stock~~

Stock Assignments

Cost of Debt

General Rules

Cost of Debt

* Fixed Payments

* Tax Deduction

* Loss of Control

AS a consequence debt should include

* Any interest-bearing liabilities, whether

Short term or long term

* Any lease obligation, whether operating or

Estimating cost of Capital

Estimating cost of debt

If Rated

Not Rated

↓

↓
Last borrowed

Cost of debt

↓
Synthetic Rating

Credit Rating

Estimating Synthetic ratings

⇒ the Rating for a firm can be estimated using the financial characteristics of the firm

$$\Rightarrow \text{Interest + Coverage Ratio} = \text{EBIT} / \text{Interest + Expenses}$$

Cost of debt Formula

$$= \text{Risk Free Rate} + \text{Default Spread} (1 - \tau)$$