**Capital Structure, Debt Capital Markets and Interest Rates Risk**

**Interest Rates Swap and cost of debt**

Two firms A and B have the following ratings and market conditions for corporate debt:

Company A: rating AA

* Fixed market: 2%
* Floating market: EURIBOR

Company B: rating A-

* Fixed market: 3%
* Floating market: EURIBOR + 0.5%

**Using the swap market, how could you improve the market conditions for both companies? Explain the approach.**

**How could you hedge the IRR?**

**YTM and Cost of Debt**

Par value: 50 millions USD.

Coupon rate 4% (annual).

Maturity: 10 years.

Repayment: in fine or balloon.

Repayment value: 50 millions USD.

Bond value at issuance: 45 millions USD.

Tax rate: 30%.

Banking fees (origination, syndicate, placement): 2 millions USD (depreciation over 2 years).

Annual debt service payment fees: 0.1 million USD.