
CapInvest

10784.36
5x9=45
2.719372

Repricing a Transaction using CapInvest

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INTRODUCTION

This paper illustrates the use of CapInvest to Reprice a Leasing / Financing Transaction in the following two situations:

- (a) When a lessee / borrower defaults on payments*
- (b) When a lease / transaction employs floating rate interest*

The example in the following table is used to illustrate the repricing - given the 4 pricing variables, the monthly lease rental is 4,519.05.

The Amortization Table for this transaction is set out in Exhibit 1. As can be noted, the lease / transaction is fully paid-up by the end of 36 months and returns the target Rate (Annual: 18%; Period: 1.5%) on outstanding Principal, period by period.

Transaction Start Date	January 1, 2004
Principal Value	125,000
Term	3 Years
Annual Pricing Rate	18%
Residual / Balloon / Future Value	0
Payment Frequency	Monthly
Payment Type	In Arrears (end of period)
Monthly Repayment	4,519.05 (Calculated)

DEFAULT SITUATION

- We assume (a) that the lessee / borrower defaults on October 1, 2004; (b) that the lease / transaction needs to recommence from January 1, 2005; and (c) that the lessor / financier levies a penal interest of 2% per month on unpaid balance in the intervening period (it is also possible that a lessor / financier may waive the penal interest entirely, in which case the penal interest rate to use is 0).

FLOATING RATE SITUATION

- We assume that the lease / transaction has to be repriced after two years, using the revised rate of 24%

Both situations involve a two-stage process:

- (1) Compute the outstanding Principal on the default / repricing date;
- (2) Reprice the new Principal via revised lease rental / repayment for subsequent periods.

REPRICING A LEASE / TRANSACTION WHEN A LESSEE / BORROWER DEFAULTS

As discussed above, if we assume that the lessee / borrower defaults on the payment due on October 1 2004, we find that the Principal Outstanding on that date is 104,243.71 (Previous Balance of 102,703.16 plus accrued monthly interest 1,540.55 - from Amortization Table).

The difference between the opening balance of 125,000 on January 1, 2004 and the balance of 104, 243.71 on October 1, 2004 represents the repayment made by the lessee / borrower during the intervening period via payments, part of which goes towards (a) interest payment for preceding period and (b) reduction of amount borrowed.

Since the lease / transaction is in limbo for 3 months and since we need to levy a penal interest rate of 2% per month, equivalent to 24% per annum,

- We first need to work out the outstanding balance on January 1, 2005 using these revised pricing variables: (a) Principal: 104,243.71; (b) Lease Rental / Repayment: 0; (c) Annual Pricing Rate: 24%; (d) Lease Term / Borrowing Term: 0.25 (representing 3 months of a year); (e) Future Value / Balloon: to be computed by CI – as you will note, the new Principal on January 1, 2005 is 110,624.26
- Given the new Principal Value, we now need to work out the new Repayment for the remaining period of 24 months, using these new pricing variables: (a) Principal: 110,624.26; (b) Annual Pricing Rate: 18%; (c) Term: 2 Years; (d) Future Value / Balloon: 0.
- As you will note, the new repayment from February 1, 2005 is 5,522.82
- As a result of the default and penal interest on the default, the period repayment jumps from 4,519.05 to 5,522.82 for subsequent periods

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REPRICING A LEASE / TRANSACTION IN A FLOATING RATE SITUATION

As discussed above, if we assume that the lease / transaction needs to be repriced after two years, January 2006, we need to follow a two-stage process

- We first need to work out the outstanding balance on January 1, 2006; as can be seen from the Amortization Table, the Principal Outstanding on that date is 49,291.56
- We need to Reprice the transaction using these revised pricing variables: (a) Principal: 49,291.56; (b) Annual Pricing Rate: 24%; (c) Term: 1 Year; (d) Future Value / Balloon: 0
- As you will note, the new lease rental / repayment from February 1, 2006 is 4,660.99 (previous repayment: 4,519.05)

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EXHIBIT 1 / AMORTIZATION TABLE FOR TRANSACTION

	Date	Investment	Op Bal	Interest	Repayment	Principal	Cl Bal
1	1-Feb-2004	125,000.00	125,000.00	1,875.00	4,519.05	2,644.05	122,355.95
2	1-Mar-2004	122,355.95	122,355.95	1,835.34	4,519.05	2,683.71	119,672.24
3	1-Apr-2004	119,672.24	119,672.24	1,795.08	4,519.05	2,723.97	116,948.27
4	1-May-2004	116,948.27	116,948.27	1,754.22	4,519.05	2,764.83	114,183.45
5	1-Jun-2004	114,183.45	114,183.45	1,712.75	4,519.05	2,806.30	111,377.15
6	1-Jul-2004	111,377.15	111,377.15	1,670.66	4,519.05	2,848.39	108,528.76
7	1-Aug-2004	108,528.76	108,528.76	1,627.93	4,519.05	2,891.12	105,637.64
8	1-Sep-2004	105,637.64	105,637.64	1,584.56	4,519.05	2,934.48	102,703.16
9	1-Oct-2004	102,703.16	102,703.16	1,540.55	4,519.05	2,978.50	99,724.65
10	1-Nov-2004	99,724.65	99,724.65	1,495.87	4,519.05	3,023.18	96,701.47
11	1-Dec-2004	96,701.47	96,701.47	1,450.52	4,519.05	3,068.53	93,632.95
Tax Year-End SUB-TOTALS				18,342.49	49,709.54	31,367.05	
12	1-Jan-2005	93,632.95	93,632.95	1,404.49	4,519.05	3,114.56	90,518.39
13	1-Feb-2005	90,518.39	90,518.39	1,357.78	4,519.05	3,161.27	87,357.12
14	1-Mar-2005	87,357.12	87,357.12	1,310.36	4,519.05	3,208.69	84,148.43
15	1-Apr-2005	84,148.43	84,148.43	1,262.23	4,519.05	3,256.82	80,891.60
16	1-May-2005	80,891.60	80,891.60	1,213.37	4,519.05	3,305.68	77,585.93
17	1-Jun-2005	77,585.93	77,585.93	1,163.79	4,519.05	3,355.26	74,230.67
18	1-Jul-2005	74,230.67	74,230.67	1,113.46	4,519.05	3,405.59	70,825.08
19	1-Aug-2005	70,825.08	70,825.08	1,062.38	4,519.05	3,456.67	67,368.40
20	1-Sep-2005	67,368.40	67,368.40	1,010.53	4,519.05	3,508.52	63,859.88
21	1-Oct-2005	63,859.88	63,859.88	957.90	4,519.05	3,561.15	60,298.73
22	1-Nov-2005	60,298.73	60,298.73	904.48	4,519.05	3,614.57	56,684.16
23	1-Dec-2005	56,684.16	56,684.16	850.26	4,519.05	3,668.79	53,015.37
Tax Year-End SUB-TOTALS				13,611.02	54,228.59	40,617.57	
24	1-Jan-2006	53,015.37	53,015.37	795.23	4,519.05	3,723.82	49,291.56
25	1-Feb-2006	49,291.56	49,291.56	739.37	4,519.05	3,779.68	45,511.88
26	1-Mar-2006	45,511.88	45,511.88	682.68	4,519.05	3,836.37	41,675.51
27	1-Apr-2006	41,675.51	41,675.51	625.13	4,519.05	3,893.92	37,781.59
28	1-May-2006	37,781.59	37,781.59	566.72	4,519.05	3,952.33	33,829.27
29	1-Jun-2006	33,829.27	33,829.27	507.44	4,519.05	4,011.61	29,817.66
30	1-Jul-2006	29,817.66	29,817.66	447.26	4,519.05	4,071.78	25,745.87
31	1-Aug-2006	25,745.87	25,745.87	386.19	4,519.05	4,132.86	21,613.01
32	1-Sep-2006	21,613.01	21,613.01	324.20	4,519.05	4,194.85	17,418.15
33	1-Oct-2006	17,418.15	17,418.15	261.27	4,519.05	4,257.78	13,160.38
34	1-Nov-2006	13,160.38	13,160.38	197.41	4,519.05	4,321.64	8,838.73
35	1-Dec-2006	8,838.73	8,838.73	132.58	4,519.05	4,386.47	4,452.27
Tax Year-End SUB-TOTALS				5,665.48	54,228.59	48,563.11	
36	1-Jan-2007	4,452.27	4,452.27	66.78	4,519.05	4,452.27	0.00
Tax Year-End SUB-TOTALS				66.78	4,519.05	4,452.27	
Grand Totals				37,685.78	162,685.78	125,000.00	