**PROBLEMS**

12-12. Use the following capital structure of a $600 million CLO fund to complete these tasks.

|  |  |  |
| --- | --- | --- |
| Tranches | Amount  $ | Spread  % |
| Tranche A | 420,000,000 | 1.500 |
| Tranche B | 60,000,000 | 2.750 |
| Tranche C | 30,000,000 | 3.125 |
| Tranche D | 20,000,000 | 4.500 |
| Tranche E | 10,000,000 | 6.750 |
| Total Debt | $540,000,000 |  |
|  |  |  |
| Equity | 60,000,000 |  |
| Total Fund | $600,000,000 |  |

* 1. Calculate the weighted average cost of debt.
  2. Assuming the weighted average gross income is 6.0%, calculate the gross equity return.
  3. Assuming the default rate is 2.0% and the recovery rate is 70%, calculate the LGD in percentage.
  4. Assuming the default rate is 2.0% and the recovery rate is 70%, calculate the LGD in amount
  5. Given the information above, calculate the net risk adjusted equity return.
  6. Given the information above, calculate the breakeven default rate for this CLO fund keeping the same recovery rate.