

Swaps

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Swaps

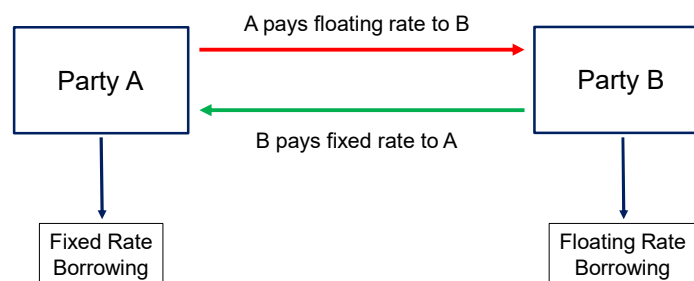
2

An agreement between two parties to swap financial obligations

Interest rate swap: periodic interest rate payments are swapped

Party A wants to pay floating rate

Party B wants to pay fixed rate



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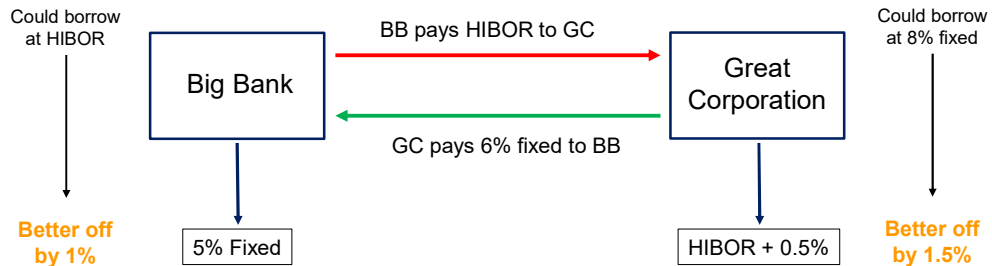
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Example

Big Bank wants to borrow a floating rate loan and Great Corporation wants to borrow a fixed rate loan. Big Bank can borrow fixed rate funds at 5% and floating rate funds at HIBOR. Great Corporation can only borrow fixed rate funds at 8% and floating rate funds at HIBOR + 0.5%. Both parties enter into an IRS arrangement whereby Big Bank pays Great Corporation a floating rate of HIBOR and Great Corporation pays Big Bank a fixed rate of 6%.



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