

NLH-184 PUB (Re: Page 15, line 19)

Dr. Waverman recommends not adding the guarantee fee to the opportunity cost of the shareholder's equity. Please explain in detail how adding the guarantee fee to the marginal cost of debt double counts the cost of the guarantee.

- A. If the one percent is added to the opportunity cost of capital, say, to make it 7.5% instead of 6.5 percent, my concern was that when that debt was actually issued a further one percent would be added. It should not be added in twice.