

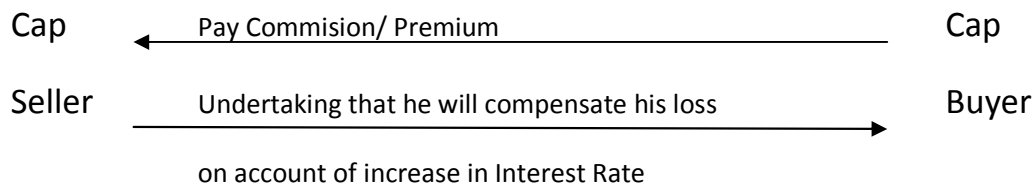
CAP, FLOOR AND COLLOR

Common points for all three:

- These are Over the Counter type of Option derivatives.
- These are useful for those who borrow or lend on Floating rate of Interest.

I. Cap:

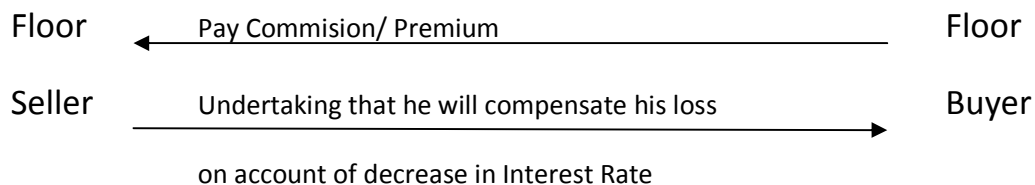
- Useful for those who borrow money.



In Simple word, Cap Buyer fixes a maximum rate for himself i.e. he limits his loss not gains. Gains are not shared with cap seller.

II. Floor:

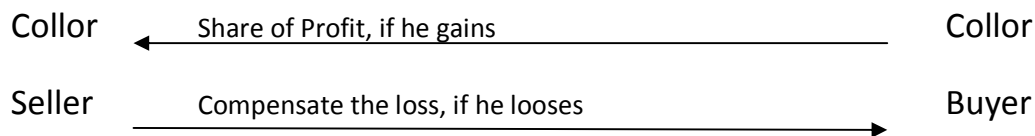
- Useful for those who lend money.



In Simple word, Floor Buyer fixes a minimum rate for himself i.e. he limits his loss not gains. Gains are not shared with floor seller.

III. Collor:

- It is a combination of Cap and Floor.
- In this, no commission is paid to anybody.
- Profit/ Loss of Collor buyer is limited i.e. he will not be gaining or loosing excessively on account of change in Interest Rate.



- Collor can be taken by anybody whether borrower or lender.

i. If Taken by borrower (Collor Buyer):

- If interest rates goes up then his loss will be compensated by color seller.
- If Interest rates goes down then collor buyer will share the profit.

ii. If Taken by lender (Collor Buyer):

- If interest rates goes up then collor buyer will share amount of profit with collor seller.
- If interest rates goes down then the loss to collor buyer will be compensated by collor seller.

Thank You