

# Analyzing the economics of a correspondent bank hedging program

Case study

The CEO of a community bank who actively uses a correspondent bank hedging program contacted Chatham and was looking to analyze pricing. They wanted better visibility into the economics of a \$6.8M transaction the bank had recently executed.

## Key goals

- Understand the economics of the correspondent bank hedging program
- Gain visibility into the referral fee the correspondent bank paid the community bank

## Our approach

- Leveraged Chatham's presence and experience in the capital markets, and compared the economics of the transaction and referral fee from the correspondent bank to what the community bank would have received had they offered the swap to their customer themselves

## Results

- Chatham's RateManager program, a commercial loan hedging solution, **would have delivered \$154,000 more to the bank on a single \$6.8M swap**. The improved economics could have been recognized through fee income, loan spread, reducing the customer's fixed rate or some combination of the three. Here are three illustrations:

	Correspondent bank	Chatham (more fee income)	Chatham (more credit spread)	Chatham (lower fixed rate)
Customer fixed rate:	3.92%	3.92%	3.92%	<b>3.76%</b>
Bank floating rate:	1mL + 2.75%	1mL + 2.75%	<b>1mL + 2.91%</b>	1mL + 2.75%
Fee income:	\$87,000*	<b>\$241,000</b>	\$117,000	\$117,000

\*The correspondent bank agreed that 15 basis points of referral fee was \$117,000, but they reduced the referral fee by 20% for their cost of capital resulting in \$30,000 less to the community bank.



# Success with a customer back-to-back swap program

Chatham works with over 190 financial institutions of all sizes to help launch, run, and grow successful customer back-to-back swap programs. RateManager, our borrower swap solution, helps all participants succeed through the combination of leading advisory services, best practices, client feedback, and industry-wide collaboration. Our scalable technology provides efficient structuring, origination, and servicing for your entire derivatives program, backed by our market-leading processes, controls, and built-in Dodd-Frank compliance. We deliver the knowledge and know-how to help our clients make the next move and benefit each step of the way.

## Keys to program success

- Defined program strategy, institutional alignment, and execution
- Responsive and scalable product infrastructure
- Efficient delivery and servicing at any scale
- Practical risk management and compliance framework

## Chatham's support along the way

- Assess if a back-to-back program is a fit for your financial institution
- Launch and build your program
- Grow, optimize, and scale your existing program
- Explore alternatives to back-to-back swaps

Transactions in over-the-counter derivatives (or "swaps") have significant risks, including, but not limited to, substantial risk of loss. You should refrain from entering into any swap transaction unless you have fully understood the terms and risks of the transaction, including the extent of your potential risk of loss. For further information about chatham hedging advisors, llc, and to view its disclosure document, please visit [chathamfinancial.com/legal/notices/](https://chathamfinancial.com/legal/notices/). 20-0368