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FINANCIAL

Enhance yield with swaps

Excess liquidity in the financial system creates challenges for financial institutions. Balance sheets demonstrate greater sensitivity to short-term rates and NIM compresses.

As a result, management teams search for yield in the loan and bond portfolio; however, when loan demand is tepid, fixed rates required to win business are unattractive, and returns on bonds are unappealing, it leaves bankers with few options. **Are there alternatives?**

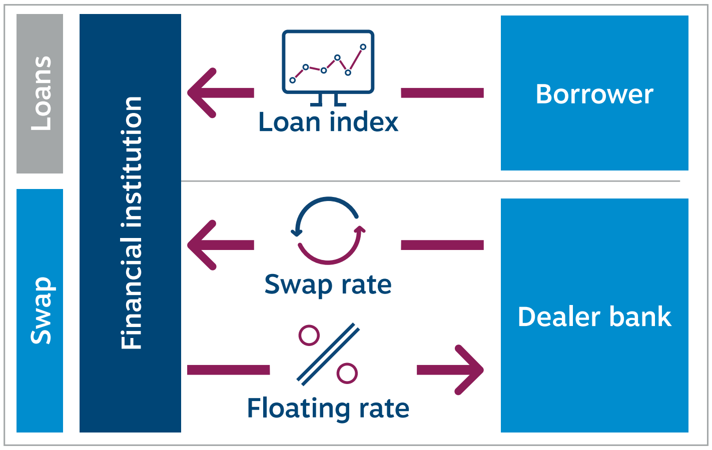
Swaps provide financial institutions a tool to enhance yield and reduce asset sensitivity

Here's how:

- Identify a pool of floating-rate assets to hedge
- Use a receive-fixed swap to convert the pool of floating-rate loans to fixed
- The swap can start today or in the future, allowing the financial institution to customize the risk mitigation to its risk profile
- Hedged exposure must remain outstanding and probable through the life of the hedge
- Loans with embedded caps/floors in loans should be evaluated and factored into the hedge accounting considerations

Result:

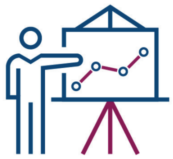
- Synthetically fix the rate on floating-rate loans or securities which reduces asset sensitivity and increases current earnings
- Monetize the shape of the yield curve by bringing forward future interest income
- Create more flexibility — swaps can be quickly and easily implemented and allow you to bifurcate the rate risk from traditional assets and liabilities
- Produce a smoother net income stream
- Utilize a hedging strategy with low capital requirements and minimal impact on capital ratios
- Add a tool to your ALCO process — enhance yield with receive-fixed swaps or protect against rising rates with pay-fixed swaps when needed



Chatham Financial

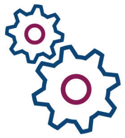
Serving over 200 financial institutions with hedging solutions

Chatham's end-to-end **Balance Sheet Risk Management** solution provides the tools needed to manage interest rate risk. Our experts collaborate with clients to identify the best strategy given their unique risk profile, views, and desired outcomes.



People

- Led by a **client relationship manager** who provides hedging advisory guidance and delivers the deep resources of our Financial Institutions team.
- Supported by a **hedge accounting team** with each client having a dedicated hedge accountant who helps with all the required initial documentation and ongoing testing.
- Backed by a **regulatory/ISDA team** to help negotiate derivatives documentation and keep our clients up to date on regulatory changes.



Process

- A **collaborative approach** to hedging decisions from strategy identification to execution to accounting.
- A **proven ERM framework** covering controls, processes, and regulatory compliance including SSAE-18 audit.

Technology

- Our online platform, **ChathamDirect**, is a modern, scalable, secure cloud platform.
- ChathamDirect provides efficient **structuring, origination**, and **servicing** for your entire derivatives program, backed by our market-leading processes, controls, and built-in Dodd-Frank compliance.

Ready to learn more? Email us at **fi@chathamfinancial.com.**

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/**. 21-0230

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