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Increase lending capacity

Many financial institutions have excess liquidity due to the global pandemic and resulting economic stimulus. Management can deploy this liquidity into new loan originations or the investment portfolio. Although bond returns are better than cash, a more attractive return may be provided from mortgage loans. This opportunity also presents a new dilemma: if a financial institution increases 15 and 30-year mortgage lending, it may lead to excessive interest rate risk.

Term funding from the FHLB can 'match fund' these mortgage loans, however that may result in higher funding costs, a ballooned balance sheet, and an adverse impact on capital ratios. **Are there alternatives?**

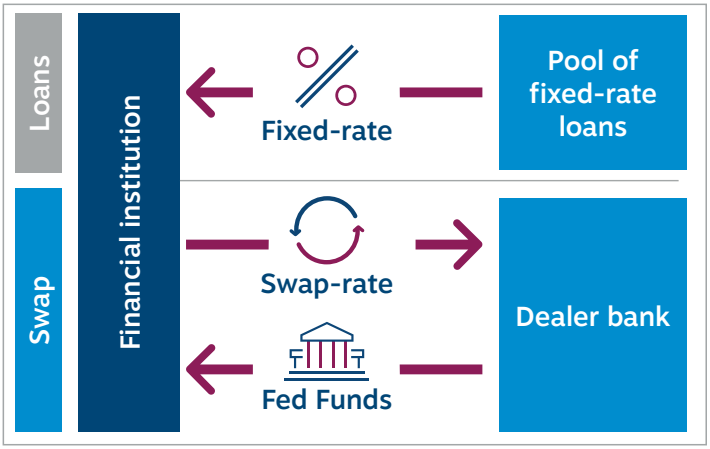
Swaps provide financial institutions a tool to increase mortgage lending while managing rate risk

Here's how:

- Generate and portfolio 15- and 30-year mortgages
- Identify a "pool" of mortgage loans to hedge
- Use a pay-fixed swap to effectively convert the last layer of the pool of mortgages to floating
- The swap can start today or in the future, allowing the financial institution to customize the risk mitigation to its risk profile
- The pool can include any prepayable fixed-rate asset (bond, loan, or mortgage)

Result:

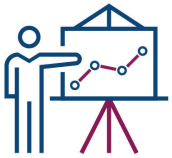
- Offer additional products, e.g., 30-year jumbo mortgages or 15-year fixed-rate loans to business account holders
- Retain existing and gain new account holders through additional product offerings
- Offer products regardless of the rate cycle
- Low capital requirements mean minimal impact on capital ratios
- Produce smoother net income



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.**

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Access advantage