

Managing excess liquidity

Financial institutions are awash with liquidity

Due to COVID-19 restrictions and unprecedented fiscal support, many financial institutions are challenged with having excess liquidity. Paltry returns in the overnight market and low yields on the short end of the curve have caused many institutions to extend the duration of their assets. Some are offering long-term loans while others are buying long-dated securities. In either case, banks and credit unions are increasing interest rate risk to improve current returns.

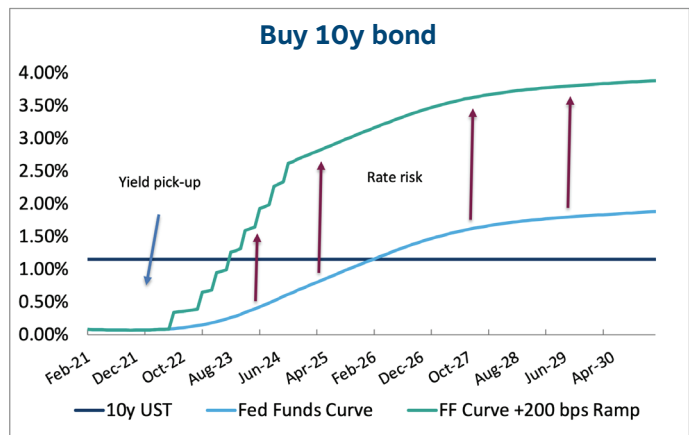
Swaps provide financial institutions with a tool to manage rate risk and protect NIM today and into the future

Here's how:

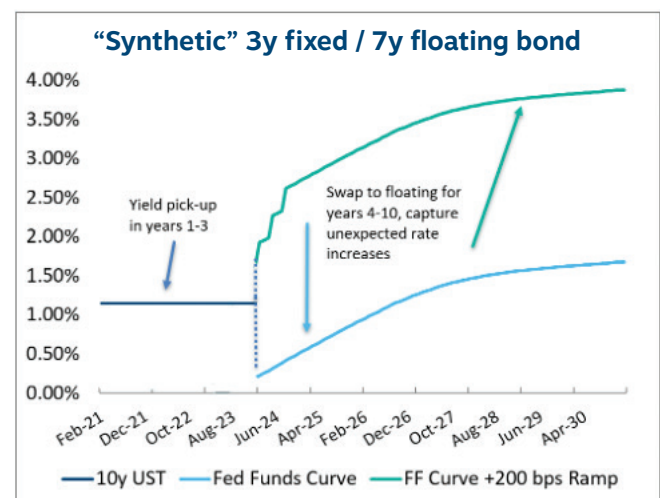
- Buy long-term bonds and/or lend long-term fixed-rate loans and reap the benefits of their current yields.
- Use a forward starting pay-fixed swap to hedge the “out-years”. Apply fair value hedge accounting to the swap to avoid earnings volatility to its periodic changes in value.
- Use the strategy with an individual fixed-rate bond or loan, or a pool of fixed-rate assets.

Result:

- The institution receives the fixed-rate until the swap becomes effective converting the bond(s) or loan(s) to a floating-rate asset for the remaining term.



Long-term yields help NIM today, but introduce rate risk



Receive fixed in the near term — swap to floating in the long-term



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. 21-0041

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