



## Why hire an advisor for a lender-required swap?

CRE borrowers often encounter interest rate swaps in conjunction with debt financings. For many bank lenders, a swap, offered with a floating-rate loan, is an efficient way to provide fixed-rate debt. The following are some of the key benefits of utilizing an advisor on a lender-required swap.

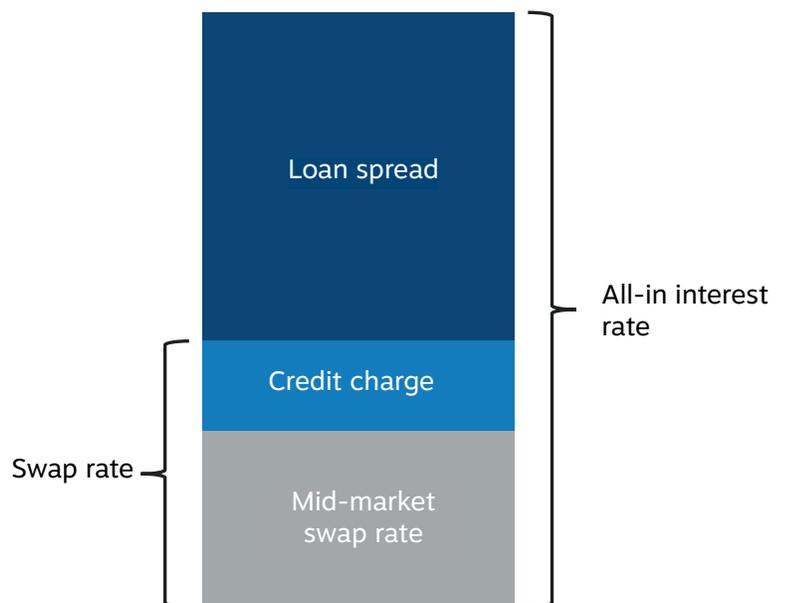
### Pricing transparency

A borrower's total swap rate generally consists of two components:

- **Mid-market rate:** A market driven rate based on current market expectations for LIBOR resets over the term of the swap.
- **Credit charge:** Negotiated, deal-specific charge based on the perceived credit quality of the borrower entity and the profit expectations of the lender's swaps desk (distinct from the loan returns).

An advisor can assist a borrower in breaking their lender's component pricing into these parts and provide transparency at closing, including:

- **Assisting the borrower in negotiating the bank's credit charge**
- **Assisting the borrower in executing the swap at loan closing**



### The Chatham advantage

Chatham advises on \$2 billion+ of hedged notional every day, giving us significant visibility into market credit charges for different lenders and financing profiles. During execution, Chatham validates the mid-market rate to which the credit charge is being added and advises on the appropriateness of any mid-to-offer spread based on then current market conditions.

Access advantage

## Economic risk analysis and structuring

An advisor identifies and analyzes risks to help borrowers weigh the costs and benefits of potential structures. Examples include:

- **LIBOR floors:** Most floating-rate CRE loans now include a floor on LIBOR (often 0%, but sometimes higher), which prevents the interest rate on the loan from falling below a certain threshold even if LIBOR falls. If a swap on such a loan is not structured with the floor in mind, the borrower creates the risk of their interest expense increasing if LIBOR falls below the floor rate.
- **Prepayment risk:** Swaps can be future liabilities and result in breakage costs if terminated early. The amount of this swap breakage is the present value difference between the borrower's contracted swap rate and the prevailing mid-market swap rate for the remaining swap term (the replacement rate).

### The Chatham advantage

*Chatham works with borrowers to quantify potential swap prepayment costs and evaluate the pros and cons of structures that can reduce or eliminate these costs, taking into consideration the plans for the underlying asset.*

## Documentation review and negotiation

Swaps are documented separately from a loan agreement using an ISDA. While often presented to borrowers by their lender as a boilerplate document, parts of the document may be drafted to be more or less favorable to the borrower. An advisor will review and coordinate other swap-related documentation such as:

- Pre-trade Dodd-Frank/EMIR compliance forms with the bank
- LIBOR fallback language in loan agreements in conjunction with counsel
- Trade documentation (i.e. swap confirmation) to ensure the bank has accurately summarized the trade terms after execution

### The Chatham advantage

*Chatham reviews and negotiates over 3,000 ISDAs annually, giving us unmatched insight into which provisions are negotiable with different lenders and what may be appropriate for different sponsors and borrowing situations.*

## Derivatives experts with unmatched perspective

Chatham brings transparency to each of these components and leverages its expertise and market awareness to ensure that the borrower gets the best possible terms and has no surprises over the term of the swap. Chatham is the market leading advisor for interest rate swaps, executing over 6,000 swaps every year. And with over 600 employees globally, 3,000 clients, and \$750 billion in transaction volume annually, Chatham helps real estate investors maximize their value in the capital markets, every day.

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](http://chathamfinancial.com/legal-notices). 20-0205