Resolutions And Flat Yield Curve Opportunities

hedging lending funding

Summary: With a flat yield curve, certain tools can provide customers with the products they want while mitigating risk for the bank. We give you the skinny on some of these helpful tools.

It isn't anywhere near year-end right now, but that doesn't mean people aren't still working on their resolutions. Statista found earlier this year, people said their top resolutions were to eat healthier (37%), get more exercise (37%) or save more money (37%). If these are on your list, we hope you are making some progress at this point in the year.

Shifting our discussion today to the markets and opportunity for bankers, things definitely are booming out there. Business is good and rates are rising, so profits are too. The Fed has slowly raised short rates, but longer maturities have been stuck in cement it seems. The result has been a flattening yield curve.

As a result, banks and their customers have been increasingly active using such tools as interest rate swaps to help steer a profitable course.

Banks have used such hedging tools to provide customers with longer term fixed rate loans, while transforming the interest rate risk on their books to better match funding and rate risks (by swapping those fixed rates back to floating for the bank). This structure gives the customer what they want without exposing the bank to longer term risk that doesn't easily fit funding options (mostly floating).

If you aren't worried about loans, but are concerned about the squeeze coming from the funding side, you have options there too, using the same tools. Here, you can essentially "freeze" the rate paid on your deposits while your loans continue to float higher, along with rate increases by the Fed. As rates move higher, it could be a good time to extend your funding pools, so it is definitely something to think about (call us and we can walk you through this or the loan option outlined above).

If taking action on your balance sheet is more your thing, consider that some banks are already increasing the rates they will pay for deposit funding. Meanwhile, still others have tried to lure deposits with special products that aim to capture customers and give customers flexibility.

The good news is that no matter the environment, your bank can remain protected, take advantage of opportunity and control your risk by leveraging a few important tools.

When it comes to lending, start by paying very close attention to correctly pricing the options you offer your customers. Put another way, when rates are headed up, borrowers often want the perceived security and protection of fixed-rate loans. Your bank can provide this option to them, but do so by pricing it with the yield curve in mind.

Banks can also move to just purchase outright insurance against rate movement by buying caps and floors too. These require an upfront payment; however they are also valuable types of rate protection, so they should be part of your lending tool kit.

We are here to help community banks keep and capture more loans and we have a hedging product you can use immediately. Doing so will allow your bank to offer fixed rates to borrowers with a floating rate for your bank. Contact us today for more information about hedging options.

HEDGING SERVICES FOR COMMUNITY BANKS

Community bankers seeing long-term fixed rate demand from business clients can transform payments into a floating rate on their books using Borrowers' Loan Protection (BLP). Contact us today for more information.