Interest Rate Swaps and Loan Modifications with COVID-19

hedging pandemic

Summary: Many community financial institutions are looking for ways to help their customers with loan modifications. Interest rate swaps are one way to go.

COVID-19 has affected our everyday lives in many ways. We are spending more time online (for work and with friends), baking more often (flour and yeast has been sold out in many areas), and honing our skills as personal hairdressers (with some interesting results). The coronavirus has definitely changed things.

One of the ways it has changed life for business owners is that many business owners need loan modifications quickly. If you are like many community financial institutions (CFIs), you are looking for nimble and diverse ways to help your customers with this need. Interest rate swaps give you a way to do this.

While there are clearly many different ways that interest rate swaps can be used, interest rate swaps are ultimately agreements between two different entities that trade one interest payment for another, for a pre-determined amount of time. Typically, interest rate swaps involve the exchange of a fixed-rate payment for a floating rate payment, based on LIBOR (or another rate such as Fed funds) plus an additional percentage.

Amidst the uncertainty and business slowdown for many, it is crucial to **provide the needed loan adjustments** in a timely manner. While there are other options available, this may be the most effective and timely. Lenders are able to extend terms in order to minimize payment issues due to the current market environment while mitigating risk by boarding a floating rate on their books.

Not only can you help your business customers with their critical needs with interest rate swaps, but you also have the **opportunity to generate fees**. You may not necessarily be thinking of fees right now. On the contrary, you may be waiving some fees. But, if you have the option to make up for some of the lost fees or the contracted NIM spread, wouldn't you?

Even before the COVID-19 crisis, interest rate swap activity was increasing. In fact, industry professionals believe that the volume of activity essentially doubled in 2019 from the previous year. The level of awareness has risen markedly in the past few weeks too, as more financial institutions have found this avenue for loan modifications.

If you need another option when talking to your business customers, consider interest rate swaps. You may want to remember this as an opportunity when you are **reviewing your loan portfolios** too. Given the low level of interest rates, this may be the perfect time to modify an existing loan through an amend/extend structure while utilizing a hedge.

We hope we have provided you with some valuable information. As always, feel free to contact us for more details.

MODIFYING LOANS? TRY INTEREST RATE SWAPS.

Contact us today for more information.