INTEREST RATE SWAPS AND LOAN MODIFICATIONS WITH COVID-19

By Jay Kenney, SVP, Regional Manager, PCBB

The coronavirus has definitely changed things. One of the ways that it has changed life for business owners is that many need loan modifications quickly. If you are like many community banks, 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 many different ways that interest rate swaps can be used, they are ultimately agreements between two different entities that trade one interest payment for another, for a predetermined 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.

Amid 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 can extend terms 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 an interest rate swap.

We hope we have provided you with a valuable option to discuss with your business customers as they seek loan modifications. To continue the discussion or for more information, please contact Jay Kenney.

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