

Breakout 2: Navigating a Volatile Rate Environment: Helping Commercial Customers and Institutions

Chris Funck

Chatham Financial

Ben Lewis

Chatham Financial



Navigating a volatile rate environment:
Helping commercial customers and institutions

FinXTech

Disclaimer

Chatham Hedging Advisors, LLC (CHA) is a subsidiary of Chatham Financial Corp. and provides hedge advisory, accounting and execution services related to swap transactions in the United States. CHA is registered with the Commodity Futures Trading Commission (CFTC) as a commodity trading advisor and is a member of the National Futures Association (NFA); however, neither the CFTC nor the NFA have passed upon the merits of participating in any advisory services offered by CHA. For further information, please visit chathamfinancial.com/legal-notices.

Transactions in over-the-counter derivatives (or “swaps”) have significant risks, including, but not limited to, substantial risk of loss. You should consult your own business, legal, tax and accounting advisers with respect to proposed swap transaction and 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. This material has been prepared by a sales or trading employee or agent of Chatham Hedging Advisors and could be deemed a solicitation for entering into a derivatives transaction. This material is not a research report prepared by Chatham Hedging Advisors. If you are not an experienced user of the derivatives markets, capable of making independent trading decisions, then you should not rely solely on this communication in making trading decisions.

All rights reserved.

23-0097

Today's speakers



Ben Lewis

Ben is a Managing Director and Global Head of Sales for our Financial Institutions team. He leads business development efforts in the Western U.S. and works with depositories helping them manage interest rate risk.

blewis@chathamfinancial.com

+1 720.221.3510



Chris Funck

Chris is Managing Director and Product Lead for Chatham's Financial Institutions team. He focuses on developing and delivering client-centric products comprised of SaaS, managed services, and advisory services.

cfunck@chathamfinancial.com

+1 484.731.0408

Financial risk management solutions that take your company further

Chatham
FINANCIAL



3,500+
clients



\$1 trillion
annual notional



600+
global employees



30,000+
annual transactions

Chatham is the largest, independent financial risk management firm serving clients across industries, sizes, and capital markets needs

chathamrates.com

~1 million unique visits per quarter

Chatham
FINANCIAL

[Solutions](#) [Industries](#) [Tools & Technology](#) [Insights](#) [About](#) [Our Team](#) [Contact](#) [Subscribe](#) [Careers](#)

[Client Login](#)

Tools & Technology / U.S. Market Rates

View [U.S. Market Data](#)

[Rates](#) [Forward Curves](#) [Cap Calculator](#) [Defeasance Calculator](#) [Yield Maintenance Calculator](#) [Download](#)

Current Treasuries and Swap Rates

U.S. Treasury yields and swap rates, including the benchmark 10-year U.S. Treasury Bond, different tenors of the USD London Interbank Offered Rate (LIBOR), the Secured Overnight Financing Rate (SOFR), 1-month Term SOFR swap rates, SOFR swap rate, the Fed Funds Effective Rate, Prime, and SIFMA. Swap rates are shown on a mid-market basis and may not reflect executable levels for most end users as they do not reflect dealer costs, credit charges, and other transaction specific mark-ups. Need capital markets data to help in your underwriting? Hedging questions? [Contact us](#).

U.S. Treasuries

| | Current | 20 Apr 2023 | 21 Mar 2023 | 21 Apr 2022 |
|---------|---------|-------------|-------------|-------------|
| 1 Year | 4.733% | 4.744% | 4.612% | 1.991% |
| 2 Year | 4.124% | 4.153% | 4.175% | 2.670% |
| 3 Year | 3.838% | 3.866% | 3.980% | 2.871% |
| 5 Year | 3.615% | 3.631% | 3.738% | 2.955% |
| 7 Year | 3.577% | 3.585% | 3.687% | 2.963% |
| 10 Year | 3.536% | 3.536% | 3.599% | 2.897% |
| 30 Year | 3.749% | 3.744% | 3.724% | 2.913% |

On the run Treasuries,
published on a 2 hour delay

Updated 21 Apr 2023 | 09:45 ET

1-month Term SOFR swap rates

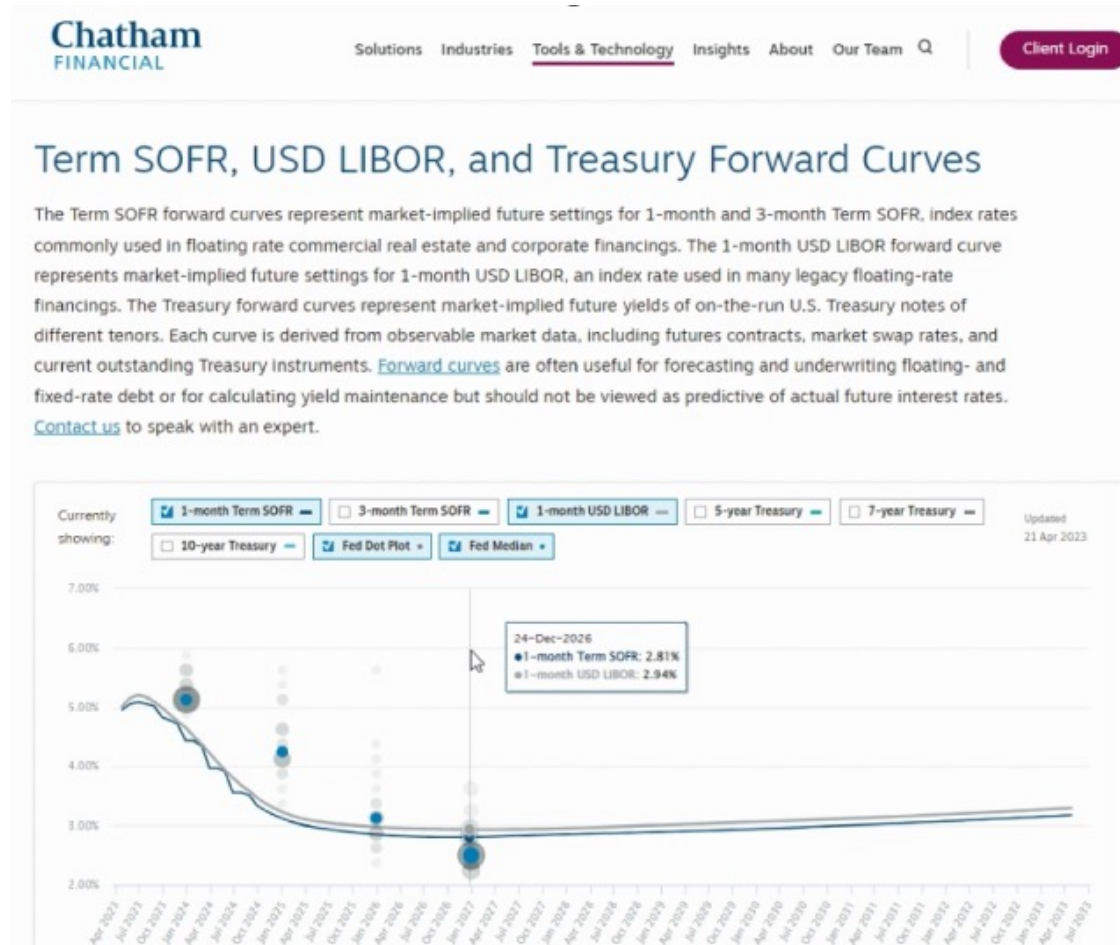
| | Current | 20 Apr 2023 | 21 Mar 2023 | 21 Apr 2022 |
|---------|---------|-------------|-------------|-------------|
| 1 Year | 4.723% | 4.738% | 4.617% | 2.045% |
| 2 Year | 4.051% | 4.083% | 4.102% | 2.622% |
| 3 Year | 3.666% | 3.702% | 3.799% | 2.726% |
| 5 Year | 3.341% | 3.369% | 3.487% | 2.687% |
| 7 Year | 3.226% | 3.247% | 3.359% | 2.649% |
| 10 Year | 3.183% | 3.196% | 3.291% | 2.627% |
| 15 Year | 3.202% | 3.216% | 3.266% | 2.608% |
| 30 Year | 2.993% | 3.005% | 2.949% | 2.384% |

Proprietary and confidential

chathamfinancial.com

chathamrates.com
~1million unique visits per quarter

api.chathamdirect.com
Subscribe to rates and curves



response_1682025761198.json ▾

```
1 {
2   "curveDate": "2023-04-20T16:00:00",
3   "rates": [
4     {
5       "rate": 0.0496074613320987,
6       "date": "2023-04-24T00:00:00"
7     },
8     {
9       "rate": 0.0505253982681894,
10      "date": "2023-05-24T00:00:00"
11    },
12    {
13      "rate": 0.0508832958148373,
14      "date": "2023-06-26T00:00:00"
15    },
16    {
17      "rate": 0.0505634721065534,
18      "date": "2023-07-24T00:00:00"
19    },
20    {
21      "rate": 0.0502260051145109,
22      "date": "2023-08-24T00:00:00"
23    },
24    {
25      "rate": 0.0483093913635155,
26      "date": "2023-09-25T00:00:00"
27    },
28    {
29      "rate": 0.0478102913890814,
30      "date": "2023-10-24T00:00:00"
31    },
32    {
33      "rate": 0.0471745278380098,
34      "date": "2023-11-24T00:00:00"
35    },
36    {
37      "rate": 0.0444034958737887,
38      "date": "2023-12-25T00:00:00"
39    },
40  ]
41 }
```

Agenda

1. How did we get here?
2. What comes next?
3. What tools and technology can you use to be ready for the next unexpected change?

Brief review of the events of March 2023



What comes next?

- Liquidity?

MARKETS | FINANCE

The Era of Easy Deposits Is Over for Main Street Banks

By [Rachel Louise Ensign](#) [Follow](#) and [Gina Heeb](#) [Follow](#)

April 19, 2023 11:39 am ET

• 6 hours ago ★

- Credit?

Investors Fear Commercial Property Could Spark Next Credit Crisis, BofA Survey Shows

By [Chelsey Dulaney](#)

MARKETS | FINANCE

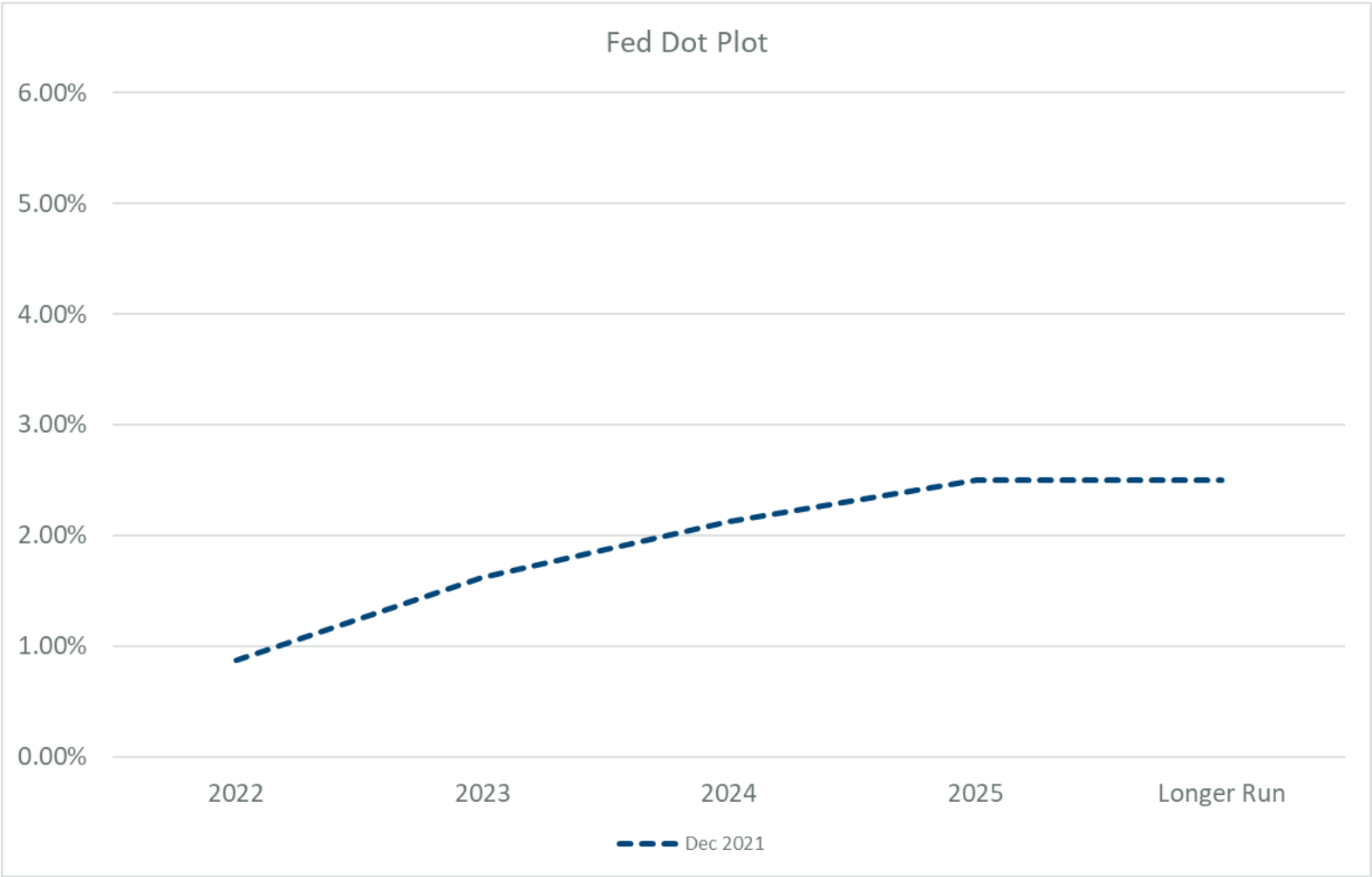
- Rates?

Few Banks Are Hedging Interest-Rate Risk

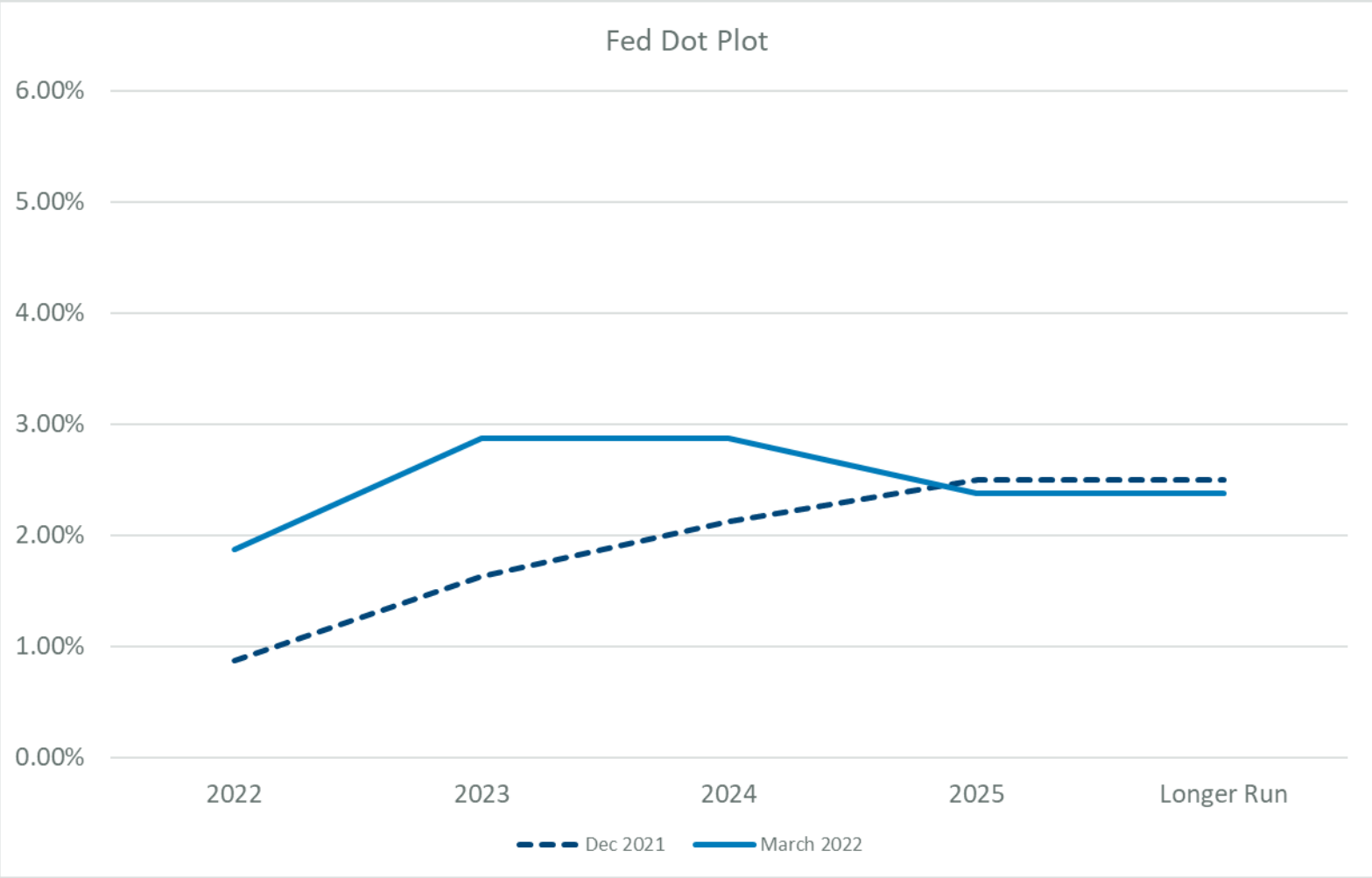
By [Matt Grossman](#) [Follow](#)

April 18, 2023 5:30 am ET

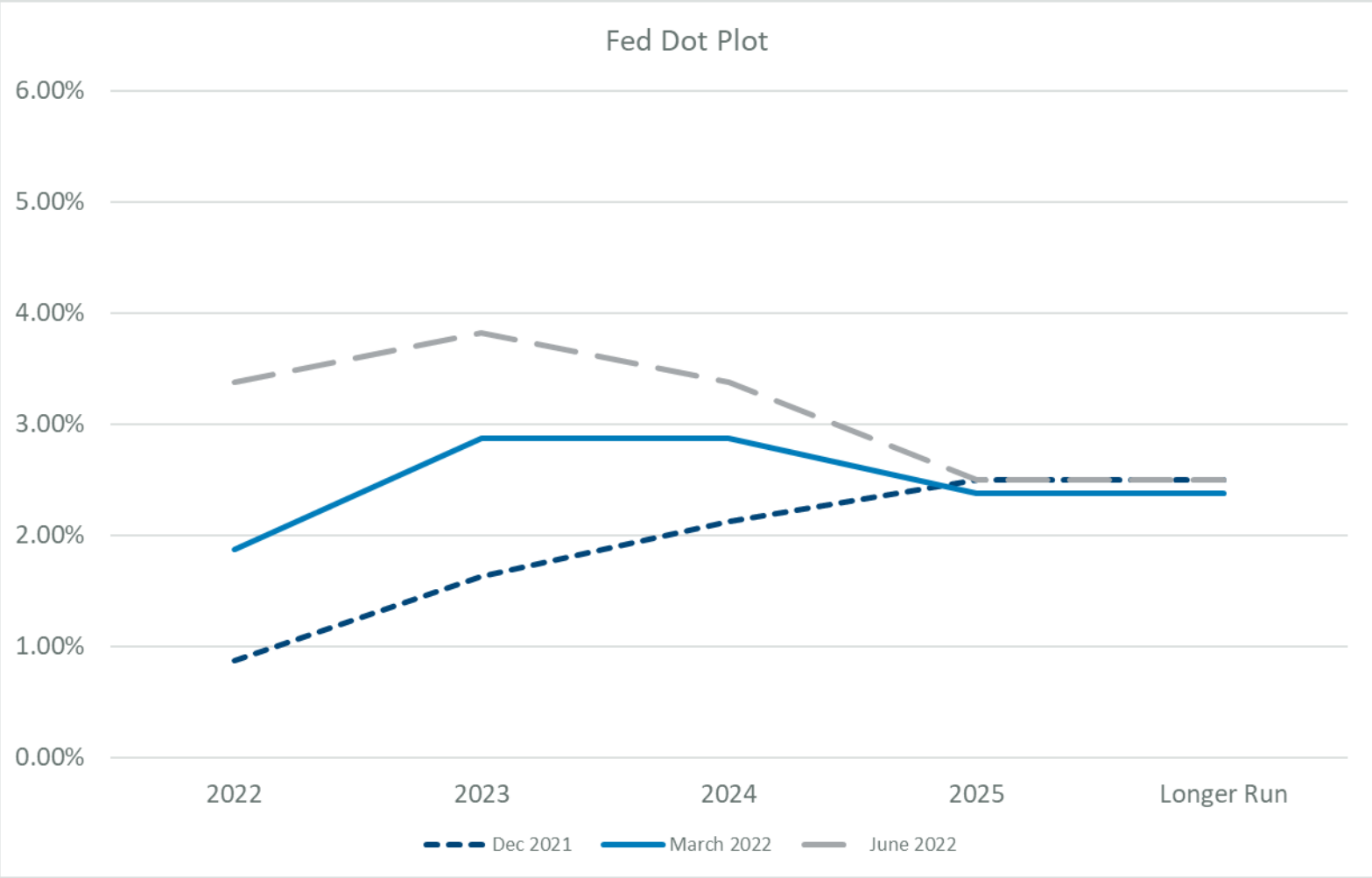
Fed Funds Dot Plot over time



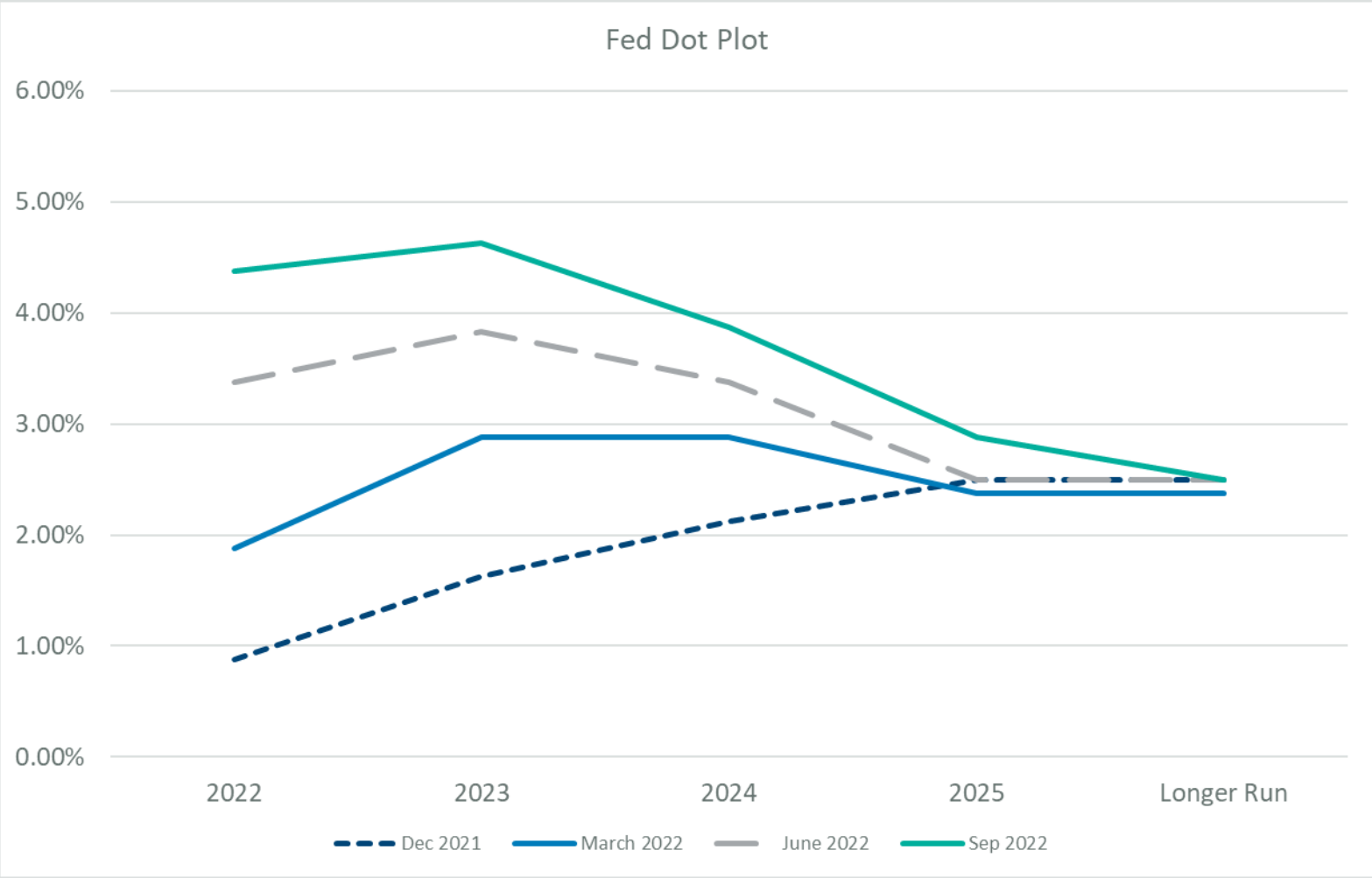
Fed Funds Dot Plot over time



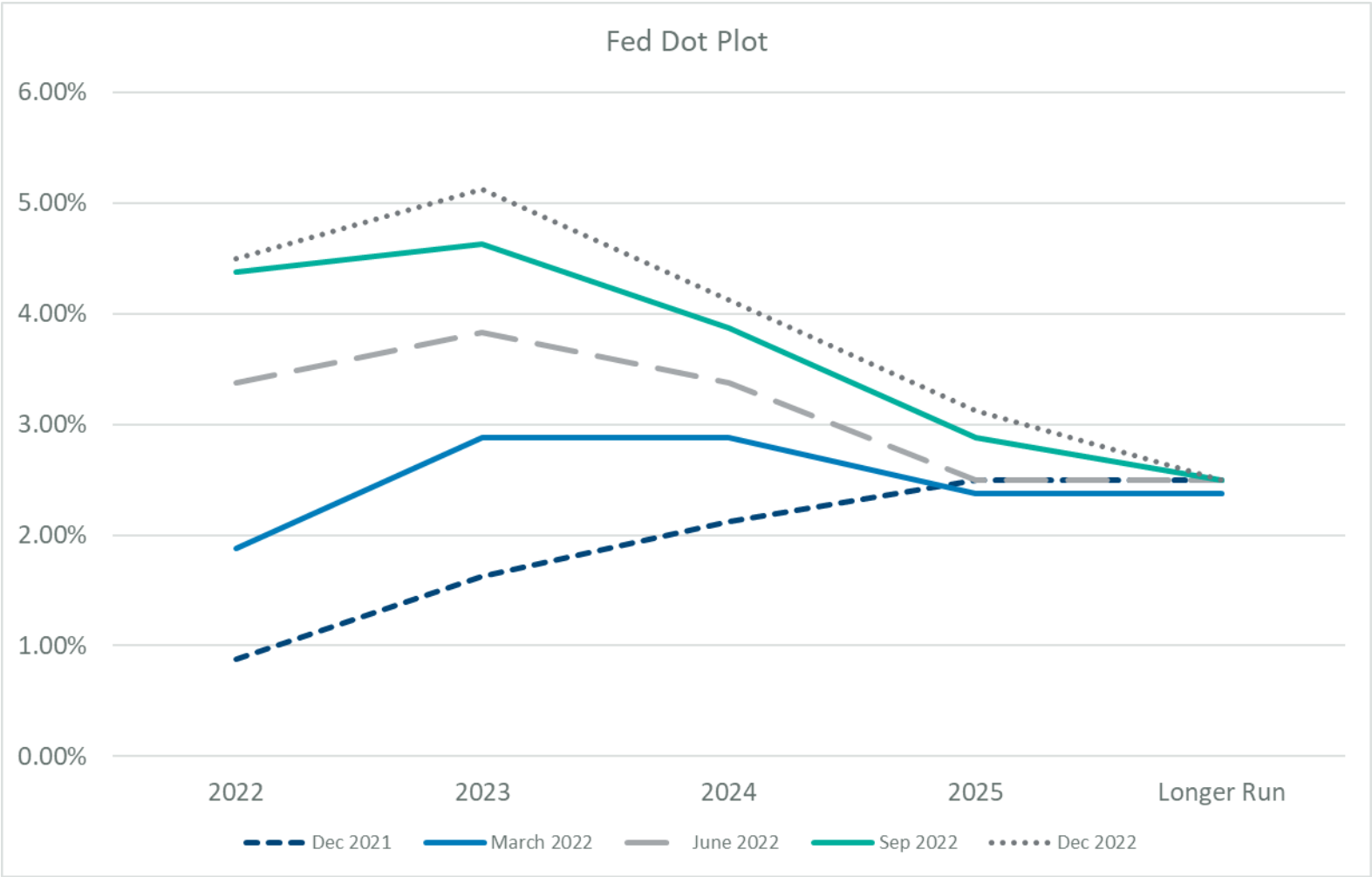
Fed Funds Dot Plot over time



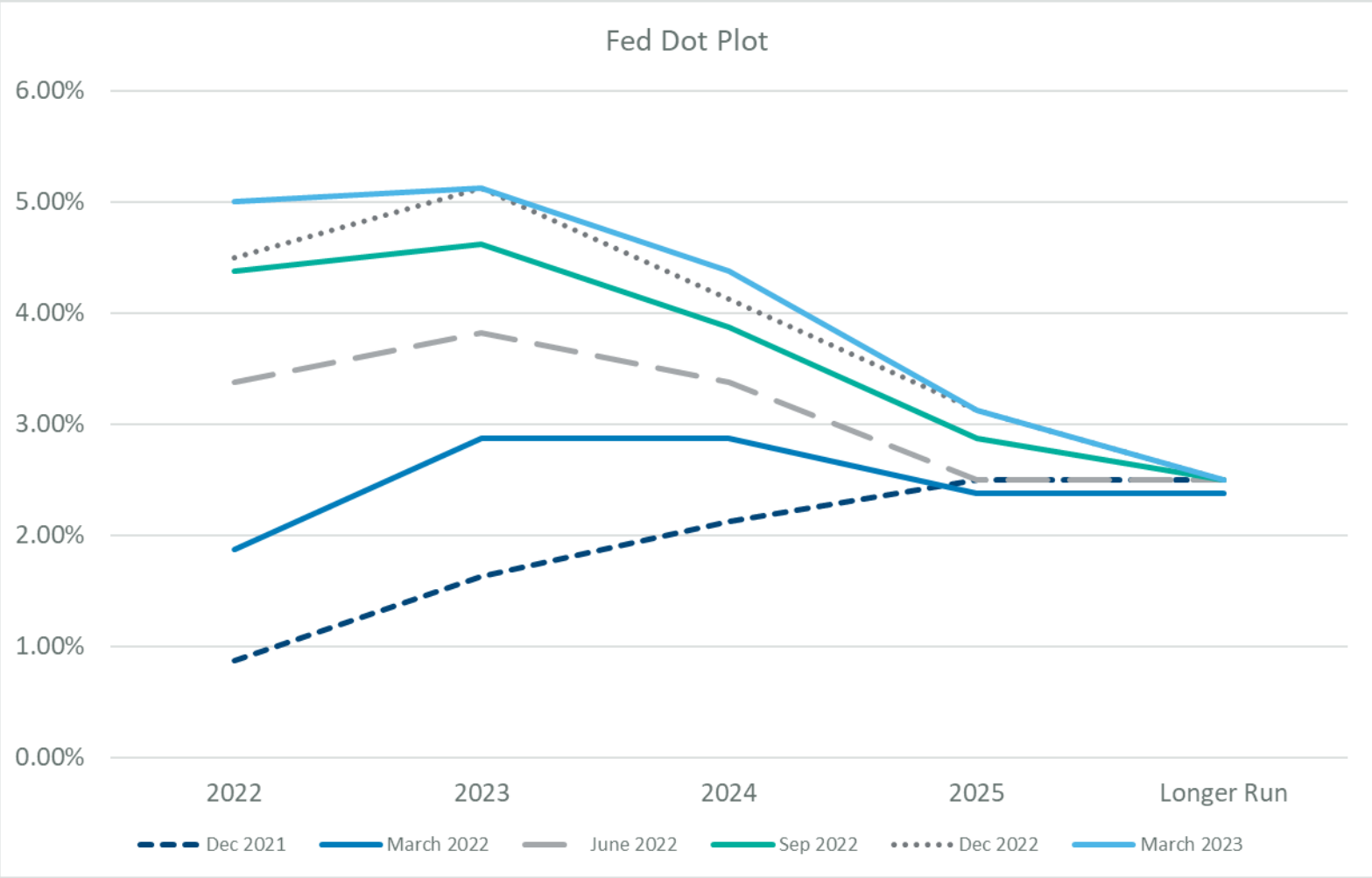
Fed Funds Dot Plot over time



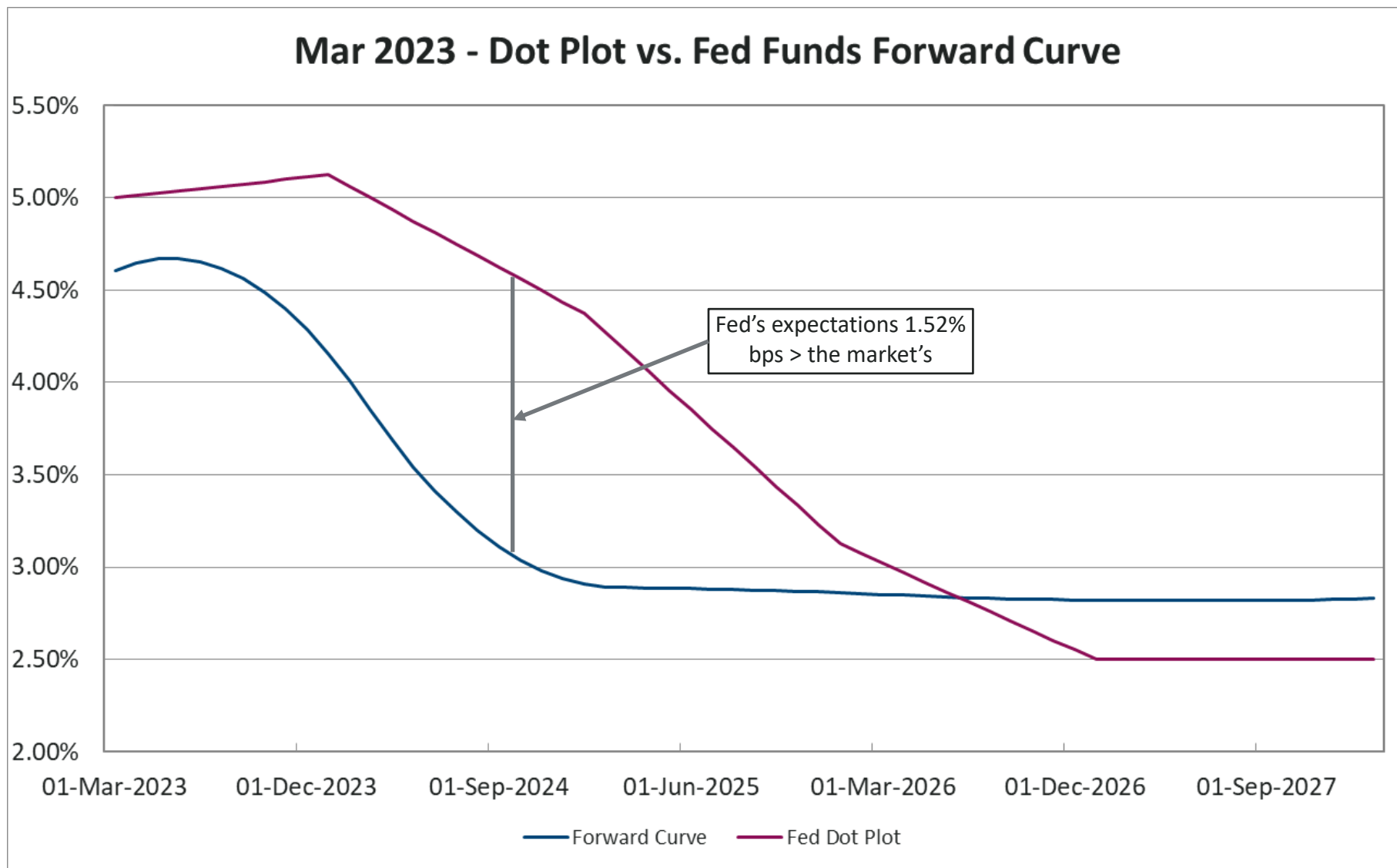
Fed Funds Dot Plot over time



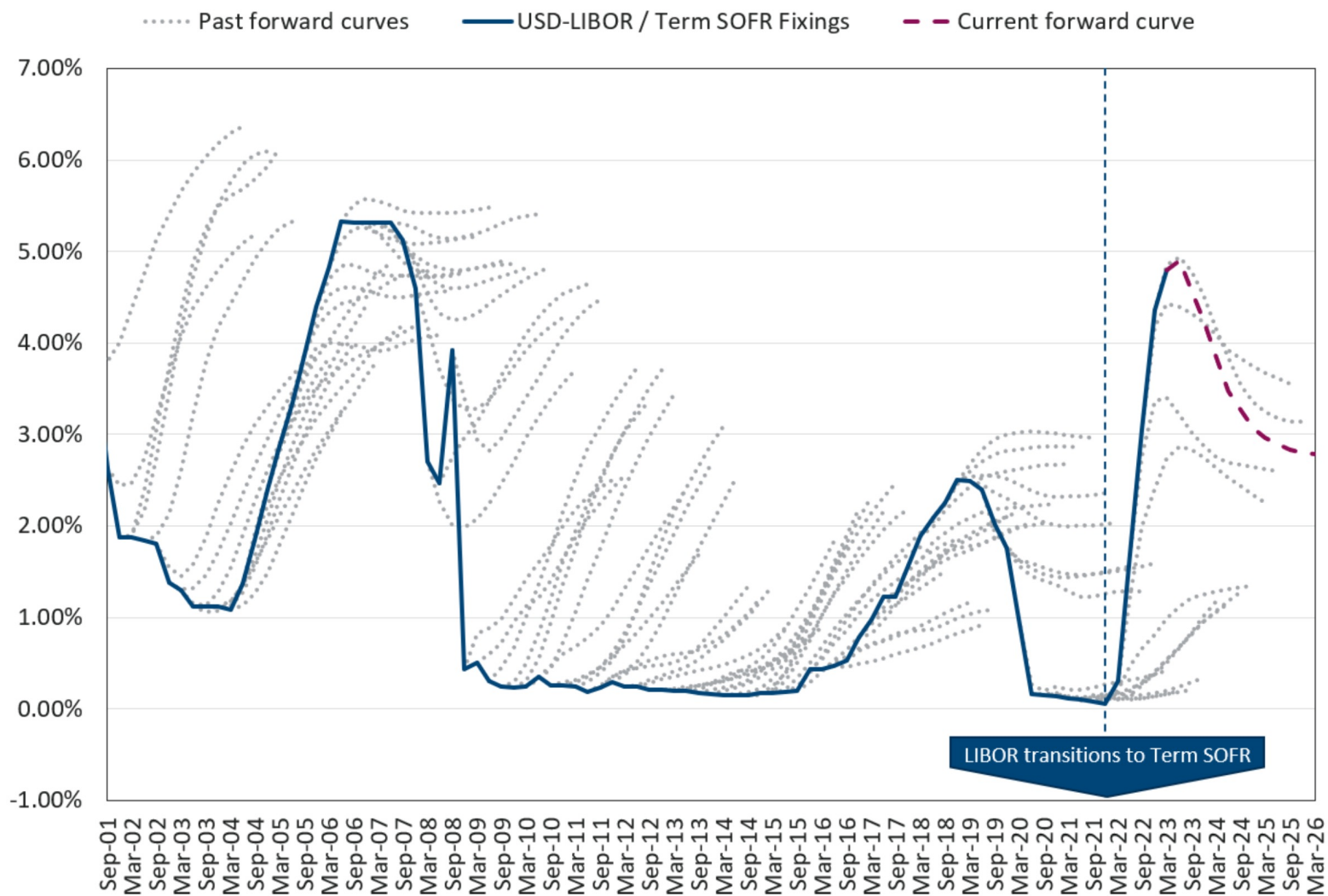
Fed Funds Dot Plot over time



The Fed vs. market expectations: Who will be right?



Hairy chart



Source:
www.chathamrates.com

What can you do to prepare?

- Gain a more complete understanding of the risk of borrower non-performance
- Help borrowers and the bank manage rate risk by providing more options for their loan structure
- Hedge interest rate risk on the balance sheet

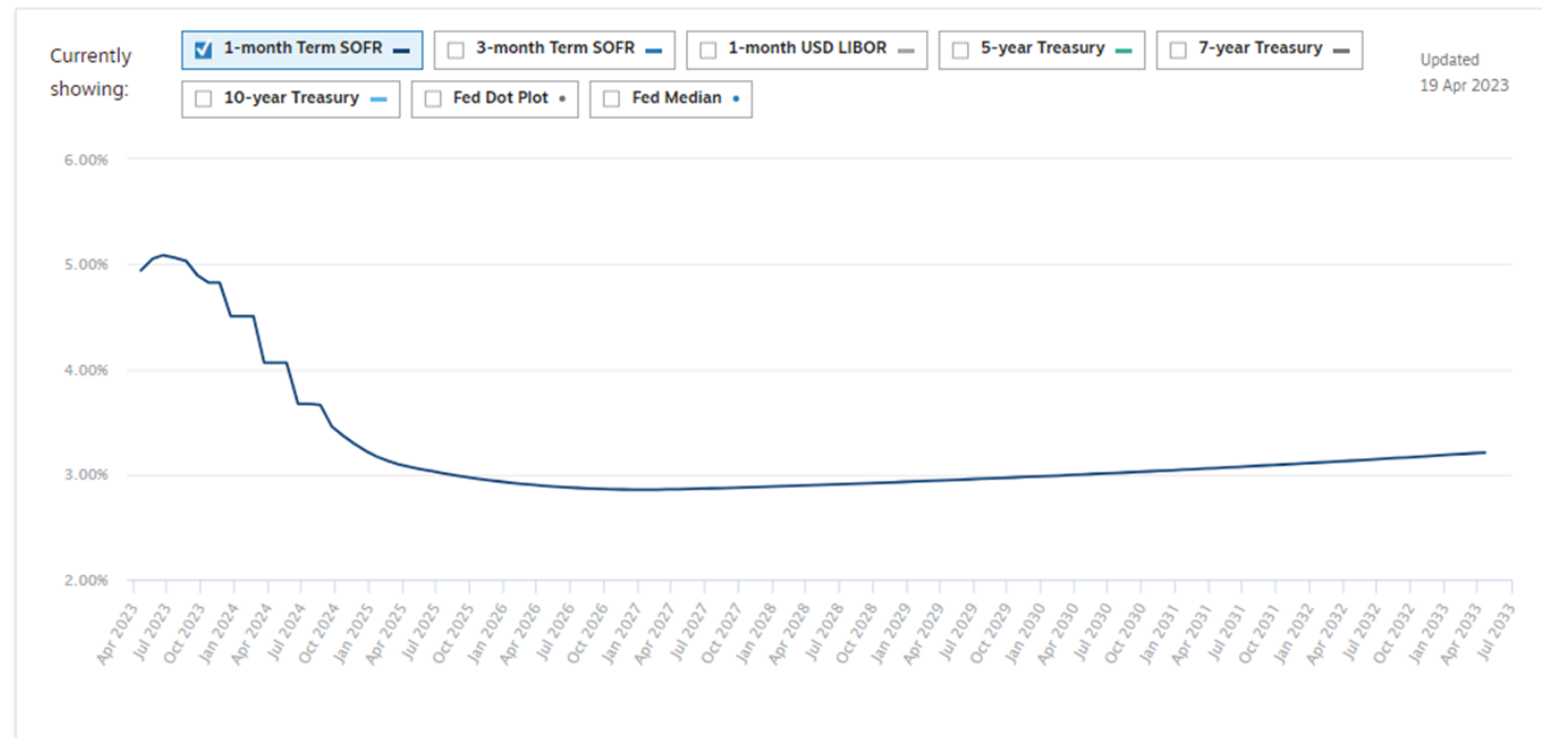
Gain a more complete understanding of the risk of borrower non-performance

- When underwriting new loans, use the forward curve at **chathamrates.com** instead of using a static assumption for Prime or SOFR

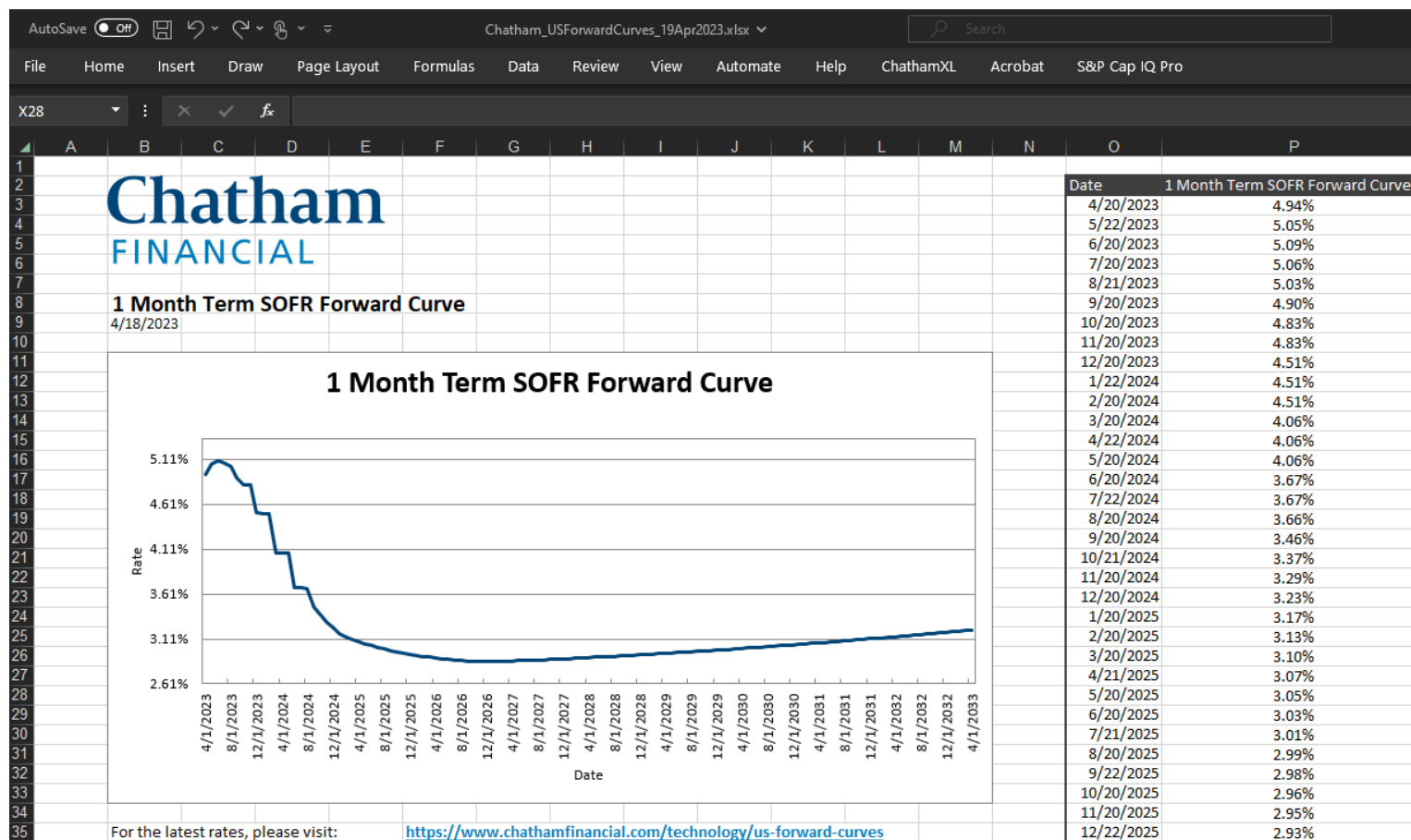


Term SOFR, USD LIBOR, and Treasury Forward Curves

Download



More robust underwriting – Use Chathamrates.com for SOFR forward curve



```
response_1682025761198.json
1 {
2   "curveDate": "2023-04-20T16:00:00",
3   "rates": [
4     {
5       "rate": 0.0496074613320987,
6       "date": "2023-04-24T00:00:00"
7     },
8     {
9       "rate": 0.0505253982681894,
10      "date": "2023-05-24T00:00:00"
11    },
12    {
13      "rate": 0.0508832958148373,
14      "date": "2023-06-26T00:00:00"
15    },
16    {
17      "rate": 0.0505634721065534,
18      "date": "2023-07-24T00:00:00"
19    },
20    {
21      "rate": 0.0502260051145109,
22      "date": "2023-08-24T00:00:00"
23    },
24    {
25      "rate": 0.0483093913635155,
26      "date": "2023-09-25T00:00:00"
27    },
28    {
29      "rate": 0.0478102913890814,
30      "date": "2023-10-24T00:00:00"
31    },
32    {
33      "rate": 0.0471745278380098,
34      "date": "2023-11-24T00:00:00"
35    },
36    {
37      "rate": 0.0444034958737887,
38      "date": "2023-12-25T00:00:00"
39    }
40  ]
41 }
```

Help borrowers manage rate risk by providing more options for their loan structure

- Why banks offer swaps and the technology they use

CHATHAMDIRECT

TradingOperationsPaymentsCreditReportingData

Chris

Multiple Indications

Build Indications

Notional

USD 5,000,000.00

+

Maturity Date

20-Apr-2026

Years

+

Amortization Term

25 years

+

Effective Date

20-Apr-2023

Months

+

Credit Spread

230 bps

+

Your Swap Fee

25 bps

+

0 Combinations

Cancel

Calculate

Current Base Indication

Add to Deal Blotter

123 Wilshire Properties, LLC: 5MM 1m TERM SOFR +230bps 3y - 25y AM Swap

No Expected Close Date

All-In-Rate

6.44%

Credit Spread

2.30%

Your Swap Fee

25 bps

PV01

1,392

Max PFE

368,696

Mid Market Spread

3.74218%

Estimated Dealer Fee

2.30000%

Chatham Financial Fee

0.10000%

Your Swap Fee

0.05000%

All-In-Rate

6.44218%

CEM Exposure

80,680

Valued 20-Apr-2023, 02:23 PM ET

Fixed Component

Frequency

Roll Day

1st Roll Day

Payment Day

Day Count

Business Days

Pays

Monthly

20, Unadjusted

05/20/23

20, Modified Following

Act/360

New York

Floating Component

Index

Fixing Adjustment

Reset Day

Frequency

Roll Day

1st Roll Day

Payment Day

Day Count

Business Days

1 mo. USD-SOFR CME Term

-2, US Government, United States

First Day of the Calculation Period

Monthly

20, Unadjusted

05/20/23

20, Modified Following

Act/360

New York

Amortization Options

Amortization Type

Amortization Start Type

Amortization Start Date

Amortization Rate

Modified Mortgage

Immediate

04/20/23

6.5%

Show Less

Help borrowers manage rate risk by providing more options for their loan structure

- Partial fixed / partial adjustable loans
- Lock-in fixed rates for constructions loans converting to permanent
- Lock-in fixed rates for existing loans that mature in the next 12-24 months

Saved Indications ☐ 6 Indications

Sort by: **Effective Date** Maturity Date

| <input type="checkbox"/> 20-Apr-2023 Effective Date | <input type="checkbox"/> 1 Year Forward Starting | <input type="checkbox"/> 2 Year Forward Starting |
|---|--|--|
| 5MM 1m TERM SOFR +230bps 3y - 25y AM Swap | 5MM 1m TERM SOFR +230bps 3y - 25y AM Swap - Fwd Start 20-Apr-2024 - 20-Apr-2027 | 5MM 1m TERM SOFR +230bps 3y - 25y AM Swap - Fwd Start 20-Apr-2025 - 20-Apr-2028 |
| All-In-Rate 6.43% | All-In-Rate 5.75% | All-In-Rate 5.54% |
| Credit Spread 2.30% | Credit Spread 2.30% | Credit Spread 2.30% |
| Your Swap Fee 25 bps | Your Swap Fee 25 bps | Your Swap Fee 25 bps |
| <input type="checkbox"/> PV01 1,392 | <input type="checkbox"/> PV01 1,344 | <input type="checkbox"/> PV01 1,306 |
| Max PFE 368,696 | Max PFE 463,006 | Max PFE 541,490 |
| Valued 20-Apr-2023, 02:46 PM ET | Valued 20-Apr-2023, 02:46 PM ET | Valued 20-Apr-2023, 02:46 PM ET |
| ☆ ↺ ↻ ⌂ + ↗ | ☆ ↺ ↻ ⌂ + ↗ | ☆ ↺ ↻ ⌂ + ↗ |
| 5MM 1m TERM SOFR +230bps 5y - 25y AM Swap | 5MM 1m TERM SOFR +230bps 5y - 25y AM Swap - Fwd Start 20-Apr-2024 - 20-Apr-2029 | 5MM 1m TERM SOFR +230bps 5y - 25y AM Swap - Fwd Start 20-Apr-2025 - 20-Apr-2030 |
| All-In-Rate 6.09% | All-In-Rate 5.67% | All-In-Rate 5.57% |
| Credit Spread 2.30% | Credit Spread 2.30% | Credit Spread 2.30% |
| Your Swap Fee 25 bps | Your Swap Fee 25 bps | Your Swap Fee 25 bps |
| <input type="checkbox"/> PV01 2,206 | <input type="checkbox"/> PV01 2,135 | <input type="checkbox"/> PV01 2,074 |
| Max PFE 656,804 | Max PFE 746,599 | Max PFE 862,644 |
| Valued 20-Apr-2023, 02:46 PM ET | Valued 20-Apr-2023, 02:46 PM ET | Valued 20-Apr-2023, 02:46 PM ET |
| ☆ ↺ ↻ ⌂ + ↗ | ☆ ↺ ↻ ⌂ + ↗ | ☆ ↺ ↻ ⌂ + ↗ |

Gain a more complete understanding of the risk of borrower non-performance

- Quantify potential customer outcomes in different rate environments
- Prepare for worst case rate scenarios

PREPAYMENT

Prepayment Settings

Shock bps *

None

25

50

75

100

Shock Increments *

None

1

2

3

4

5

6

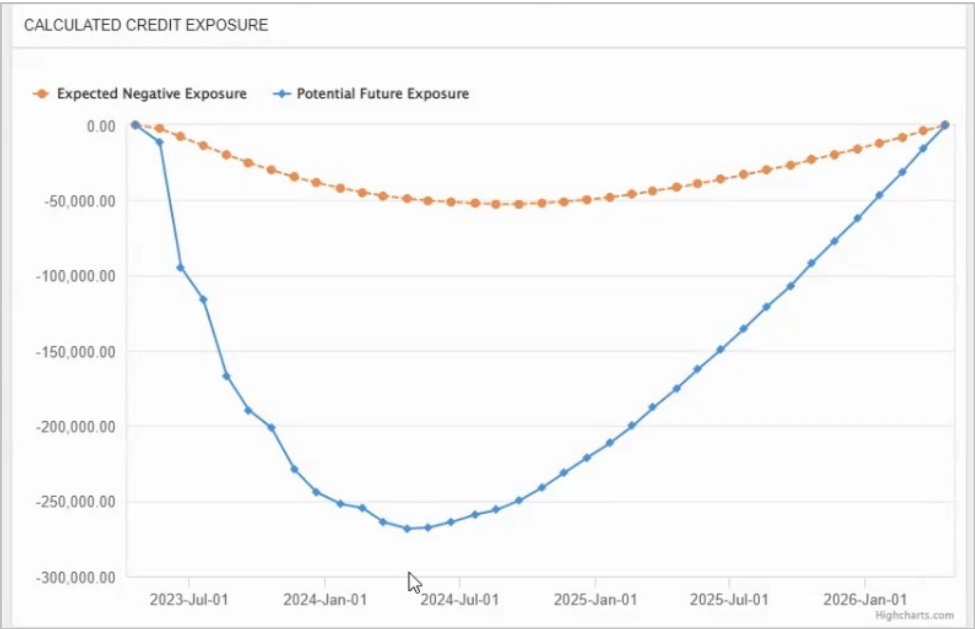
All-In Rate

6.10260%

Calculate

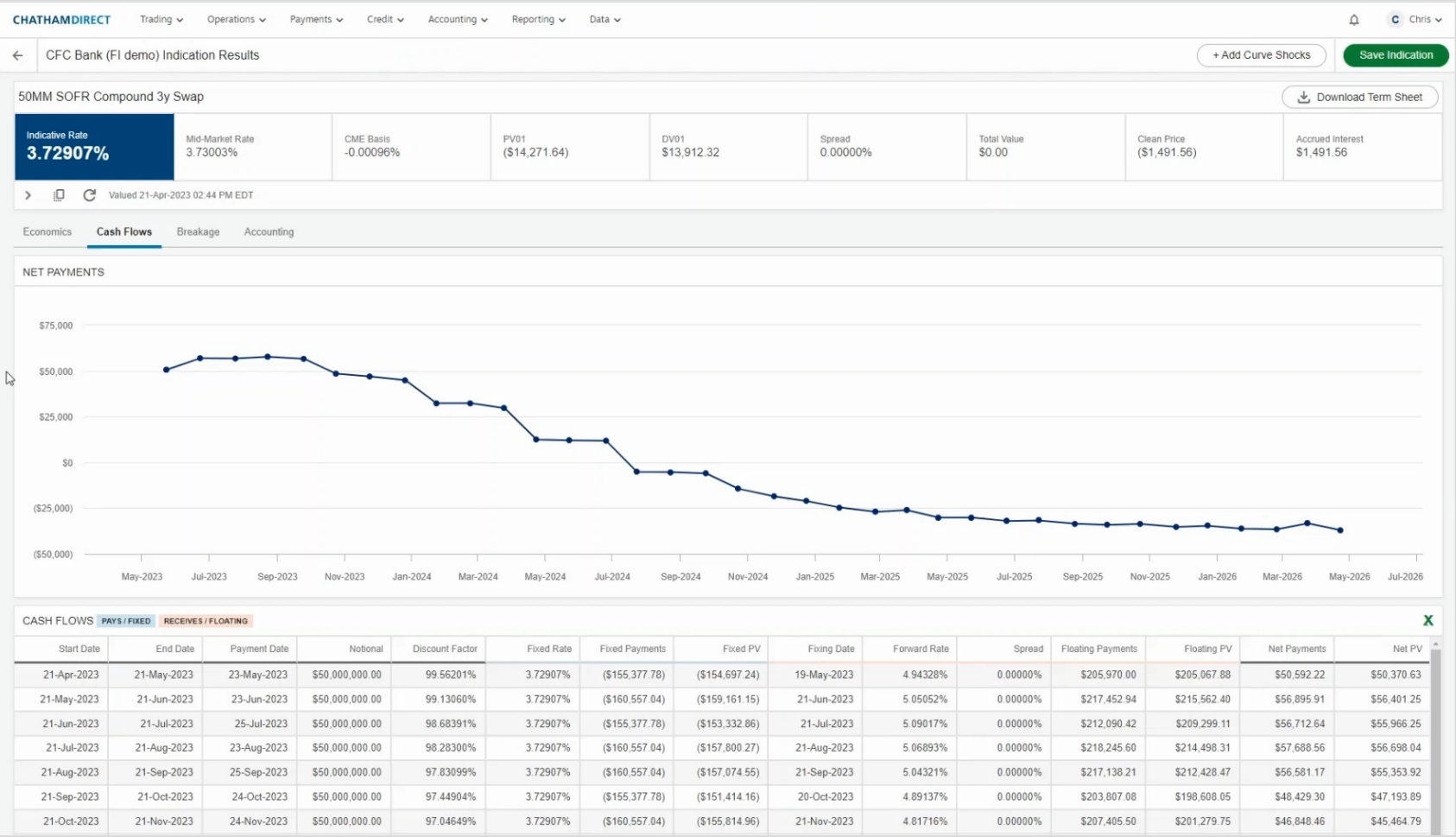
Prepayment Results

| | Time Remaining | | | |
|------------------|----------------|-----------|-----------|-----------|
| Replacement Rate | 4 yrs | 3 yrs | 2 yrs | 1 yrs |
| 9.10% | 503,405 | 387,560 | 255,176 | 130,208 |
| 8.10% | 342,012 | 262,147 | 171,866 | 87,277 |
| 7.10% | 174,307 | 133,002 | 86,821 | 43,877 |
| 6.10% | 0 | 0 | 0 | 0 |
| 5.10% | (180,996) | (136,861) | (88,560) | (44,320) |
| 4.10% | (369,388) | (278,043) | (179,116) | (89,196) |
| 3.10% | (565,108) | (423,354) | (271,494) | (134,530) |



Hedge interest rate risk on the balance sheet

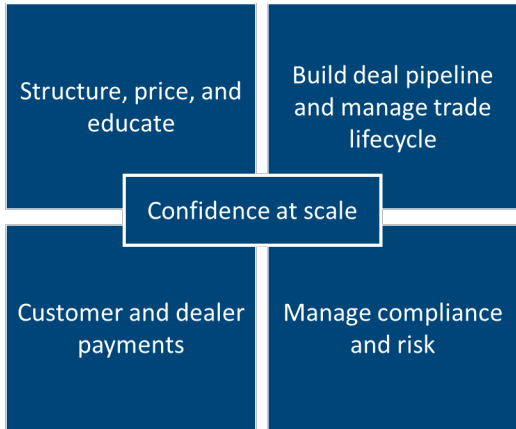
Run scenarios to understand how hedging strategies impact your financials



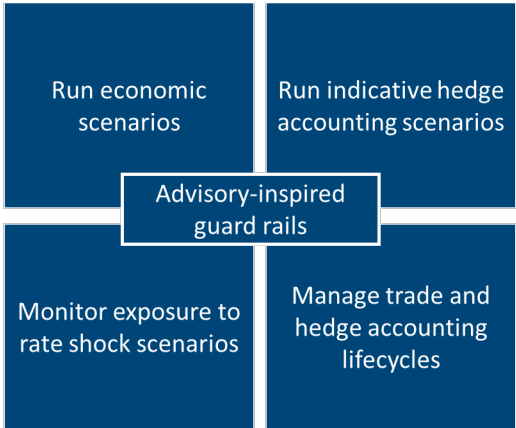
ChathamDirect for rates hedging programs

Digital hedging platform for FI's ranging in size \$1b to +\$200b

Customer hedging



Balance sheet hedging



Risk management

- Rate risk
- Counterparty risk
- Collateral postings
- Exposure analysis

Hedge accounting

- Valuations
- Mark-to-market
- Cash flow
- Fair value
- Entries

api.chathamdirect.com

- Rates and curves
- Trades
- Valuations
- Payments
- SSO SCIM

“Hedging jobs take seconds-to-minutes, not hours, or days”
Longstanding \$50B and \$150B clients

Questions?



Thank you

Chatham
FINANCIAL

Access advantage
