

Interest-Rate Swaps (IRS) for borrowers

The situation

Your firm has a loan of \$500,000 in USD, which is currently on a floating-rate basis. Market analysts have predicted that interest rates will soon rise, so you want to protect yourself against this happening. In the past, high interest rates have cut away your margin and you do not want this to happen again.

The product

An Interest-Rate Swap 'IRS' is the most widely used way of managing interest rates on longer- term loans. An Interest-Rate Swap allows you to swap your floating interest rate to a fixed- interest cost for the period. We will take responsibility for paying the floating rate on your loan. Your commitment is to pay a new fixed rate of interest for however long the Interest-Rate Swap lasts. In this way, your firm is protected against any rise in floating interest rates.

The solution

You have borrowed \$500,000 in USD for the next three years. This loan is on a 1-month floating-rate basis, so you come to us for a 3-year Interest-Rate Swap. This Swap will be at a fixed rate of 5.5%. When this is put in place, we will pay you a floating 1-month interest rate which cancels out your 1-month cost of funds on the loan you already have. You must pay us a fixed 5.5% on a loan of the same amount. In this way you will only pay 5.5% cost of funds interest on your loan. (The credit margin payable is due separately from the swap)

The benefits

- The Swap gives full protection from rising interest rates.
- The Swap provides certainty when you are planning for your business.
- We can reverse the Swap at prevailing rates if you repay the loan early.

Features

- Any bank can arrange a swap. It does not have to be the bank, which provided your original loan.
- You can negotiate an Interest-Rate Swap before you are given the loan. These are generally known as 'forward start' swaps.
- We can put swaps in place for periods from 1 to 10 years. We provide Interest-Rate Swaps for loans in all major currencies. We can tailor these swaps to suit your needs.
- We can provide swaps for any floating interest rate - every month, every three months, every six months or every year. We can offer you a fixed rate for the remaining life of your loan. We can arrange this even if the interest payments you make are not regular.
- We can provide swaps against Libor and other floating rate indices such as BMA
- An 'amortizing interest-rate swap' is an interest-rate swap which reduces over its lifetime.
- An 'accreting/amortizing interest rate swap' is an IRS that increases for the first few years and then reduces over the remaining lifetime.