

## Interest-Rate Guarantees (FRA options) for borrowers

### The situation

Your firm will need \$500,000 in USD in 3 months' time, for a 6-month period. Nobody is sure what interest rates will do in the future. Some analysts think rates will move higher, others feel they will move lower. You want to protect your firm against the risk of higher borrowing costs. In the past you have used Forward-Rate Agreements to protect yourself but you know that if you use Forward-Rate Agreements now you will give up the possibility of lower borrowing costs.

### The product

An Interest-Rate Guarantee is a product, which can be very useful in these circumstances. Basically, it is an option on a Forward-Rate Agreement. For a period of time, it allows you the right to buy a FRA at a set price. The guarantee protects you against a rise in interest rates while giving you the freedom to enjoy cheaper borrowing costs if interest rates fall. If you want this guarantee you will need to pay us an up front cash premium.

### The solution

You have to borrow \$500,000 in USD for a 6-month period beginning in 3 months' time. You want to protect your firm against rising interest rates and guarantee a maximum cost of funds of 5%. You buy an Interest-Rate Guarantee from us at a rate of 5% for the three-month period. Let us see how the product would work.

- In 3 months' time the 6-month 'Libor' is 5.5%. You use your Interest-Rate Guarantee and ask us to pay you compensation for the 0.5% difference in interest rates. We do this, so your 5% cost of funds is protected.
- In 3 months' time the 6-month 'Libor' is 4.5%. You choose not to use your Interest-Rate Guarantee and instead borrow at the cheaper rate. In these circumstances the Interest-Rate Guarantee protected you against a higher borrowing cost and also allowed you to take advantage of the fall in rates.

### The benefits

- The guarantee will give you full protection against rising interest rates.
- The guarantee will give you freedom to benefit if rates fall.
- If you decide that you do not need the guarantee, you can sell it and may get some value back.

### Features

- You can get an Interest-Rate Guarantee whenever you need one and we can tailor it to suit your needs. We provide Interest-Rate Guarantees for all major currencies and for a wide range of maturities.
- You can get an Interest-Rate Guarantee from a bank other than the one who gave you the loan.
- You can use the Interest-Rate Guarantee for any loans you have or expect to have.
- The price of your Interest-Rate Guarantee will depend on how long you need it for and what interest rates are expected to do in the future.
- We will settle the agreement against the relevant Libor at the start of the Interest-Rate Guarantee period.
- You can sell us back the Interest-Rate Guarantee at any time if you no longer need it.