INTEREST RATE SWAPS

Overview

WHAT IS AN INTEREST RATE SWAP ("SWAP")?

An independent agreement between two parties in which one agrees to pay a fixed rate of interest—and the other agrees to pay a floating rate of interest—for an agreed-upon notional (principal) amount.

No principal changes hands—instead there's simply an exchange (or swapping) of interest payments for a set period of time at a rate derived from market expectations at the time of execution of the swap. A floating-rate loan and an interest rate swap together create a "synthetic" fixed-rate loan.

WHAT ARE THE BENEFITS OF A SWAP?

FLEXIBILITY | Ability to fix the interest rate on all, or a portion of, the principal balance for a set term.

BILATERAL PREPAYMENT | Retain economic benefit if swap rates rise (swap becomes an asset); if swap rates fall, then the swap becomes a liability.

COST SAVINGS | Potentially reduced borrowing costs in a rising rate environment.

WHO IS A GOOD CANDIDATE FOR A SWAP?

Someone who:

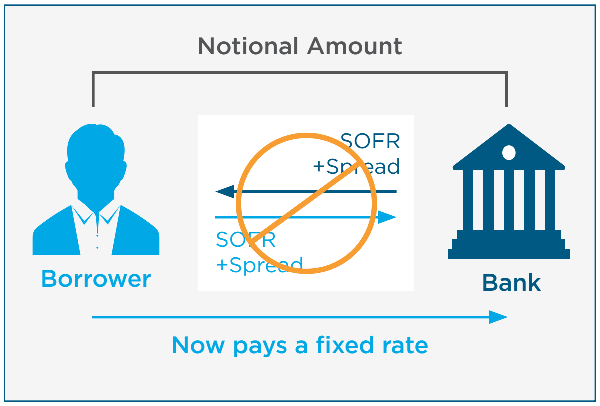
- Is seeking a financing term of three (3) years or longer;
- Has a current loan balance of $2 million or larger; and
- Qualifies as an Eligible Contract Participant (ECP)[1] under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

HOW DOES A SWAP WORK?

Assume a borrower has an adjusted 1-month term SOFR-based loan and pays variable interest payments over the term.

The borrower then executes a "pay fixed" swap contract at a fixed rate vs. adjusted 1-month term SOFR, respectivley; for an agreed term.

The net effect of these cash flows is that the borrower pays a fixed rate for an agreed term.



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[1] An Eligible Contract Participant (ECP) is defined in the Commodities Exchange Act as an individual or entity who meets minimum financial thresholds or conditions, generally $10 million in total assets for entities or $5 million for individuals hedging an interest rate risk, although other qualifications can be satisfied. You must certify to us how you qualify as an ECP at the time of any transaction by completing and signing our ECP certification forms.

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