

Upfront Fee Income With BLP®



In partnership with



Monetizing Hedges Through Borrower's Loan Protection® (BLP)

Community banks are always looking for additional upfront fee income. With BLP, you can get it.

When hedging loans, banks can receive the benefits of additional noninterest income through upfront hedge fees.

BLP Hedge Fee Benefits

- **Augment current income**, especially during low-interest rate environments
- **Recognize additional income** immediately in earnings
- **Keep the fee (no reversal of fee)** regardless of loan prepayment; through the BLP program, the hedge fee is paid as a referral fee to the bank and recognized in the period in which it is received

A hedge fee (also referred to as monetization) is simply the present value of the fee spread over the life of the hedge.

When the hedge is executed at a rate above its prevailing swap rate, a hedge fee is paid.

The monetized amount increases the all-in fixed rate for the borrower and is reflected in the swap's mark-to-market (MTM) when the borrower prepays. It's advanced at the closing date and can be generated up to 25bps. Since it's noninterest income generated from the swap, it doesn't have to be repaid, even if the borrower prepays the loan.

Using a \$1 million loan with a 10-year term and 25-year amortization, we show you how it works along with examples of how much fee income you could make.

With BLP, your bank is able to collect more upfront fee income to help boost immediate earnings.

How It Works

Loan Details

Loan Amount:	\$1,000,000
Term:	10-year
Amortization:	25-year

Without Upfront Hedge Fee

Swap rate:	0.75%
Credit spread:	2.50%
Fixed rate:	3.25%

With Upfront Hedge Fee

Swap rate (+0.25% fee):	1.00%
Credit spread:	2.50%
Fixed rate:	3.50%

Your bank makes:

\$18,570

Hedge Fee Income Examples for a \$1 Million Loan

Fixed Rate	3.30%	3.40%	3.50%
Upfront Hedge Fee	0.05%	0.15%	0.25%
Total Income	\$3,735	\$11,175	\$18,570

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