



Deliver Fixed-Rate Loans Without Interest Rate Risk or Complexity

Executive Summary

Community financial institutions (CFIs) routinely take uncompensated risk when they offer fixed rate loans without offsetting the underlying interest rate risk. At the same time, many find traditional back-to-back swap programs too complex, expensive, or operationally burdensome to use consistently. PCBB's Borrower's Loan Protection® (BLP®) gives institutions of any size a simple, cost-effective way to deliver long-term, fixed rate solutions to their best borrowers, while keeping a floating-rate asset, reducing interest rate risk, and generating attractive fee income.

CFIs operate in an increasingly challenging environment defined by rate volatility, margin compression, and rate-sensitive borrowers. They're also experiencing intensified competition from banks — large and small — that routinely use swaps to structure and win competitive commercial deals.

How Fixed Rate Loans Expose CFIs to Uncompensated Interest Rate Risk

In today's uncertain economic climate, many CFIs continue to meet borrower demand for fixed-rate loans. Many often lack the tools to accurately price or offset the associated interest rate risk. If interest rates fall, the borrower effectively holds a free option to refinance at a lower rate, while the lender bears the cost of lost future income tied to the original higher rate. In other words, the borrower controls the prepayment decision, but the economic consequence rests with the lender.

While this approach helps maintain valuable relationships, it comes at the expense of assuming risks that aren't transparently managed or adequately compensated. Over time, this uncompensated fixed-rate exposure leads to lower return on equity (ROE), asset duration that drifts beyond targets, and persistent pressure in Asset-Liability Committee (ALCO) discussions around interest rate sensitivity and balance sheet positioning.

Although loan-level hedging offers a clear path forward, many CFIs still struggle to effectively implement and scale back-to-back swap programs. This limits their ability to compete on an equal footing with larger banks and manage interest rate risk in a consistent and cost-efficient way.

Why More Lenders Aren't Hedging Today

The key challenges CFIs face when adopting loan-level hedging relate to implementation complexity, resource constraints, and operational pushback. These include:

- Costs — initial setup, ongoing headcount, and collateral funding
- Operational complexity
- Accounting requirements
- Complicated hedge collateral requirements
- Explaining swaps to borrowers

Lenders also need to be comfortable with the technical aspects to promote loan-level hedging products to their clients. This requires internal expertise across lending, finance, and risk functions that many institutions often don't have.

As a result, CFIs that launch back-to-back swap programs typically see minimal usage. In fact, institutions often close hundreds of fixed-rate loans each year but only execute a handful of swaps after years of having a back-to-back program in place. The numbers say it all: fewer than 10% of FDIC-insured institutions report holding swaps on their balance sheets.

Larger financial institutions, on the other hand, use swaps as a routine part of their lending process, giving them a structural advantage in quoting long-term fixed rates. This leaves many CFIs increasingly unable to match the terms that their borrowers want and are being offered elsewhere.

Why Your Peers Choose PCBB's BLP to Simplify Loan-Level Hedging

Borrower's Loan Protection (BLP) offers a streamlined way for CFIs of all sizes to deliver fixed-rate payments to borrowers, while avoiding the complexities of traditional back-to-back loan-level hedging programs. Hundreds of CFIs are using BLP to meet their borrowers' financing needs.

This approach allows the loan to feel and function like a conventional fixed-rate product for the borrower, while remaining straightforward for the lender to administer.

The benefits for a CFI are clear. BLP streamlines execution, while reducing both interest rate and credit risk exposure. It eliminates the need for hedge accounting, capital allocation, and collateral posting, while also creating opportunities to generate incremental fee income.

At the same time, it enables institutions to offer competitive rates that support stronger customer acquisition and long-term retention. BLP can also be applied to new loan originations and existing fixed-rate loans already on your balance sheet.

Because of its simplicity, BLP is far easier for CFIs to understand, manage, and sell than a traditional back-to-back swap program. Lenders can grasp and explain the solution in a matter of minutes and, using simple terms and straightforward documentation, communicate the benefits to borrowers without overwhelming them.

BLP Requires:

- ✓ No Hedge Accounting
- ✓ No Capital Allocation
- ✓ No Collateral Posting

Three Simple Steps for How BLP Works



What Sets BLP Apart From Traditional Back-to-Back Swaps

So how does PCBB's BLP program differ from traditional back-to-back swaps? It comes down to where the derivative sits and how that impacts documentation, accounting, collateral, and operational complexity.

In a traditional **back-to-back swap**, the lender enters into two separate swap agreements: one with the borrower and an offsetting swap with a swap dealer. The derivative remains on the lender's balance sheet as an active position between the financial institution and the dealer. This setup requires full International Swaps and Derivatives Association (ISDA) documentation, hedge accounting, and collateral management and posting. The arrangement also creates a multi-party structure with additional operational steps, ongoing management responsibilities, and capital implications.

In PCBB's **BLP program**, the lender does not enter into or hold a derivative position. Instead, the borrower executes the swap directly with PCBB, and the derivative sits on PCBB's balance sheet. As a result, the lender can focus on the relationship and credit risk without worrying about derivative accounting, collateral management, or regulatory reporting requirements tied to a swap position. This reduces the lender's operational complexity and allows for greater flexibility in loan terms.

BLP Is More Cost-Efficient Than Back-to-Back Swaps

These structural differences translate into **cost savings** for CFIs.

- **Personnel costs.** With BLP, CFIs don't have incremental staffing requirements, as the structure integrates into existing lending workflows. By contrast, a direct back-to-back swap program usually requires one to three dedicated roles — depending on experience — to cover operations, documentation, accounting, reporting, and sales support. A CFI will also need external legal and operational personnel. The economics of a back-to-back setup generally only become attractive at high volumes of swaps per year.
- **Collateral funding.** CFIs using BLP don't need to post or fund collateral against swap exposure, since PCBB manages that on their behalf as the actual swap counterparty. CFIs avoid collateral funding costs (see Figure 1) associated with maintaining reserve balances and financing posted collateral.
- **Capital charges tied to swap exposure.** With BLP, the CFI doesn't hold the derivative on its balance sheet. As such, the institution doesn't incur the incremental capital requirements associated with back-to-back swaps.

With BLP, CFIs can offer swaps efficiently across a wide range of transaction volumes, from relatively low annual volumes to very high levels, due to the savings in personnel costs, collateral funding, and capital charges.

Collateral Funding Costs With a Back-to-Back Program

Terms	5-Year	10-Year
Principal	\$2,000,000	\$2,000,000
Reserve (%)	2.00%	3.00%
Reserve (\$)	\$40,000	\$60,000
Marginal Funding Rate	4%	4%
Funding Cost/Year	\$1,600	\$2,400
Funding Cost/Lifetime	\$8,000	\$24,000
Value of a BP	\$850	\$1,475
Collateral Cost (in BPS)	9.41	16.27

BLP Simplifies the Lender Experience

On top of the cost savings and structural simplicity, BLP also improves the lender experience.

✓ **Comprehensive dashboard:**

Instead of managing complex derivative workflows, lenders use PCBB's streamlined, web-based platform that provides daily updated rates, valuable customized scenario tools, and quick, customized proposal generation.

✓ **Training support:**

Access to our built-in training resources and support from our hedging team means lenders can structure and present solutions with confidence, without needing deep derivatives expertise.

✓ **Smooth end-to-end process:**

BLP reduces friction in the sales process, shortens turnaround times, and makes it easier for institutions of all sizes to engage borrowers and close deals.

BLP Addresses ALCO and Board Concerns

BLP directly mitigates the key issues typically raised at the ALCO and Board level. By matching each borrower's swap with an offsetting trade, it prevents the lender's overall duration from drifting away from its target and reduces the build-up of unhedged positions.

This, in turn, lowers the amount of capital a lender has tied up, makes earnings more stable, and keeps interest rate exposure under control, ensuring that performance reflects borrower's business rather than market swings.

**Summary Comparison:
Back-to-back Swaps Versus BLP**

Parameters	Back-to-back	BLP
Staffing costs	1-3 FTEs	0 FTEs
Collateral funding costs	Yes	No
Capital costs	Yes	No
Documentation	Complex	Simple
Derivative accounting	Yes	No
Borrower experience	Complex	Simple
Lender experience	Complex	Simple
Fee income	Yes	Yes
Single invoice and payment	No	Yes
Training and support	Varies	Yes

Get Started with BLP: A Practical Playbook

- ✓ **Assign an internal champion.** Designate a clear internal owner or executive sponsor to lead the effort, coordinate across teams, and maintain accountability throughout implementation.
- ✓ **Complete operational training.** PCBB trains your finance and back-office teams on how BLP works within existing workflows, including loan setup, payment flows, and coordination with PCBB. Operational buy-in is critical to implementation.
- ✓ **Equip lenders with training.** PCBB provides relationship managers with practical, deal-focused training so they can confidently explain and position BLP in conversations with borrowers.
- ✓ **Leverage sales materials.** Familiarize your team with downloadable, co-branded materials provided by PCBB to ensure consistent messaging and clear, simple borrower communication.
- ✓ **Pilot BLP on a small set of deals.** Work with your BLP specialist to begin with a limited number of live transactions to test the process, build internal comfort, and demonstrate value before rolling out a full program.

Success Stories: What Our Customers Say About BLP

Deepening Commercial Relationships: Lea County State Bank

Lea County State Bank strengthened its ability to compete with larger institutions by offering borrowers attractive fixed rates. The added flexibility for borrowers to cancel and cash out when rates rise has deepened relationships and created a clear competitive advantage over bigger financial institutions. In the year since adopting BLP, the CFI has secured loans it otherwise would have missed, contributing to an increase in its commercial loan portfolio.

"It's easy for the borrower, and easy for us to keep the borrower. Our institution keeps the margin, and the borrower gets the fixed rate. Win-win."

Sam Spencer, former President,
Lea County State Bank

Earned Fee Income and Stronger Relationships: The National Bank of Coxsackie

BLP enabled The National Bank of Coxsackie to boost earnings through upfront fee income from hedging transactions while providing borrowers with competitive fixed-rates at no additional cost — strengthening client relationships in the process. Access to more competitive pricing also gave the institution the confidence to pursue complex deals for sophisticated commercial borrowers. With PCBB's support, what once felt like an intimidating step into swaps has become a valuable part of the CFI's lending toolkit.

"Doing swaps with PCBB removes the intimidation, because there are people there who you can lean on for help. That's a common factor that holds back bankers from offering swaps at small organizations like ours."

Charlene Slemple, Former SVP
& Chief Lending Officer, The
National Bank of Coxsackie

Expanding into New Lines of Business with BLP: Prism Bank

Prism Bank was able to offer hedging to a new line of business, aircraft lending, by leveraging BLP experienced hedging specialists who were responsive, professional, and instrumental in closing deals. The process was transparent, with no surprises at execution, and supported by PCBB's willingness to explore new asset classes. Just as importantly, the partnership was built on shared values and a collaborative approach, giving Prism Bank the confidence to pursue new opportunities.

"We're not competing against banks our size; we're competing with banks 5, 10, 20, a hundred times our size. It makes a huge difference in being able to offer a swap program."

Matthew Scantlin, EVP & Chief
Lending Officer, Prism Bank

Conclusion: Gain Flexibility and Large-Bank Capabilities with PCBB

For most CFIs, building and sustaining a full back-to-back derivatives capability is neither practical nor scalable given the operational, capital, and staffing requirements involved.

Yet, BLP enables CFIs of all sizes to offer the long-term, fixed-rate certainty and flexible terms borrowers want, while preserving a floating-rate asset and protecting margins. CFIs can expand fee income, reduce capital and collateral burdens, and keep asset-liability profiles within target ranges, all without adding headcount or complex hedging infrastructure.

In other words, our BLP solution allows CFIs to offer large-bank capabilities without large-bank infrastructure.

Contact Us Today To Learn More

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Hedging Program: Borrower's Loan Protection®

Since 2004, our hedging team has been actively helping hundreds of clients nationwide—no matter what sort of loan structure they want.

With Borrower's Loan Protection (BLP®), collectively, PCBB and your institution can offer your commercial borrowers longer-term fixed-rate loans, ensuring they have the security of consistent payments for optimal business planning.

We look forward to helping your institution realize its lending goals with this additional lending tool in your toolkit. To learn more about our solution, [checkout this webpage](#).

About PCBB

PCBB believes in the power of local financial institutions to be the catalyst of small business growth and to enable communities to thrive. Our team is committed to providing not only the tools and knowledge our customers need to serve their clients, but also the partnership and trust they deserve.

Our robust suite of competitive services includes cash management and international services, lending solutions, and profitability and risk management advisory services. These solutions help community financial institutions maximize revenue, increase efficiency, and manage risk.