

LIBOR Forward Curve : The market's future expectations of LIBOR today, six months ago, and one year ago

**TFA**  
Monthly  
Newsletter

July 2016

IN THE NEWS

*This month, TFA asked our friends at Derivative Logic to address current trends in interest rates and how it may be a good time to consider interest rate protection for tribal borrowers with floating rate debt. Banks are out marketing interest rate hedging contracts and given the current market, it's a good time to start thinking about it.*

## Hedging in an Uncertain Interest Rate Cycle— Interest Rate Collar

by Rex Evans and Jim Griffin

### The Perfect Storm

We've all been witness to the recent fall in interest rates of late of late as global investors flocked to the safety of government bonds as a shield from the blowback of sagging global growth, negative interest rates, and BREXIT. There doesn't seem to be any change on the horizon as the Fed has pushed the nearest possibility of an interest rate hike to Q1 2017 at the earliest. On top of it all, the pool of negative-yield bonds has pushed the global total of sovereign debt with negative yields to \$11.7 trillion, up \$1.3 trillion since May.

In conversations over the years with borrowers of all shapes and sizes, we've seen time and time again that all

borrowers basically share the same basic goal: take advantage of low-interest rates now while protecting themselves if interest rates rise in the future. While the "lower for longer" interest rate theme and flat yield curve continues to provide unique borrowing opportunities, it also provides a hidden opportunity for hedging interest rate risk in alternative ways that haven't been attractive for quite some time.

### Hedging Considerations

So what's a floating rate borrower to do? Some borrowers opt for the easy method of avoiding interest rate risk fixing the rate on the entire loan for the full term with an interest rate swap: "Fix it and Forget it". Sometimes this makes the most sense given a bor-

### Connecticut Tribe Among Partners in \$265M Mississippi Casino

06/07/16 – [CDCGamingReports.com](http://CDCGamingReports.com)

### 9th Circuit Sides in Favor of NIGC, Jamul Indian Village

06/13/16 – [ICTMN.com](http://ICTMN.com)

### Washington State OKs Spokane Tribe's Casino

06/18/16 – [RegisterGuard.com](http://RegisterGuard.com)

### Supreme Court Deadlocks in Closely-Watched Tribal Jurisdiction Casino

06/23/16 – [Indianz.com](http://Indianz.com)

### PCI Gaming Authority Purchases Margaritaville in Bossier City

06/27/16 – [BossierPress.com](http://BossierPress.com)

### Supreme Court Won't Hear Pauma Band Compact Negotiation Case

06/27/16 – [Indianz.com](http://Indianz.com)

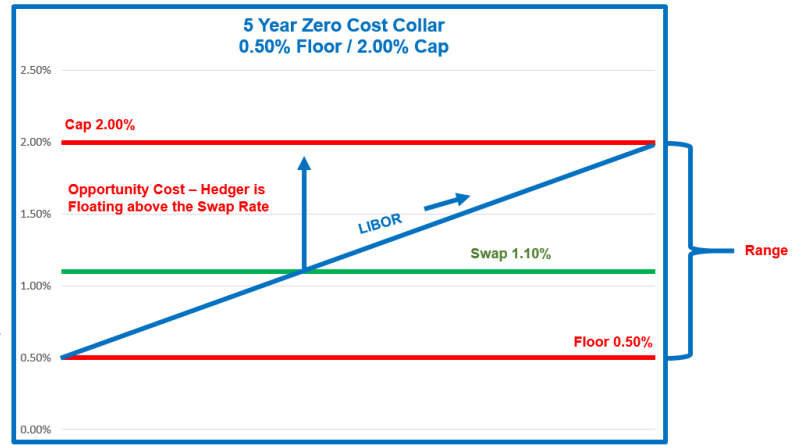
### Governor Brown Signs Tribal Compacts

06/29/16 – [ImperialValleyNews.com](http://ImperialValleyNews.com)

(continued from page 1)

borrower's plans for the underlying asset, or their view on the future upward direction of interest rates. Other options include (a) just hedge a portion of the debt (say 50%), (b) use a swap to fix the rate for a period shorter than the maturity of the loan or (c) make a bet that interest rates will remain flat and not hedge at all. Each borrower's situation is unique. The market's expectation of flat interest rates offer a great time to consider some hedging options.

- Consider swaps to hedge floating rate risk. They're more attractive now because of the lower fixed rate they're offering over historical levels, and downside risk is lower if the swap is terminated prior to maturity.
- Better yet, consider an Interest Rate Collar which can be structured with no up-front cost. A collar offers similar protection to ris-



ing interest rates, but the difference is that the hedger establishes a defined RANGE (floor and ceiling) of interest rates they'll be subjected to as opposed to a single interest rate as in a swap. With a Collar; the hedger is certain that they'll be exposed to LIBOR within the defined range, and the range provides the borrower with the

ability to take advantage of low-interest rates in a much more beneficial way than a swap.

Interest Rate Collars are looking very good right now, but the opportunity to hedge with a collar may be short-lived. The yield curve could steepen (see chart on top of page 1), negative yield fears could dissipate, or the economy could strengthen. If any of these situations arises, the collar will likely lose some hedging appeal.

**TFA will be attending the following upcoming conferences in July**



Tulsa, OK  
July 11 - 14



Tulsa, OK  
July 25 - 27



Prior Lake, MN  
July 26

Tulsa, OK  
July 28

If you will also be in attendance and would like to set up a meeting, please contact Kristi Jackson at [kjackson@tfacp.com](mailto:kjackson@tfacp.com)

Special thanks to Rex Evans and Jim Griffin for partaking in this month's newsletter.

[DerivativeLogic.com](http://DerivativeLogic.com)  
(415) 510-2100

**TFA CAPITAL PARTNERS**

**TFA**

400 Continental Boulevard  
Suite 320  
El Segundo, CA 90245  
[tfacp.com](http://tfacp.com)

**KRISTI JACKSON**  
CHAIRMAN  
310.341.2335  
[kjackson@tfacp.com](mailto:kjackson@tfacp.com)

**JEFF HEIMANN**  
MANAGING DIRECTOR  
310.341.2518  
[jheimann@tfacp.com](mailto:jheimann@tfacp.com)

**DAVID HOWARD**  
CEO  
310.341.2795  
[dhoward@tfacp.com](mailto:dhoward@tfacp.com)

**WILLIAM CRADER**  
MANAGING DIRECTOR  
310.341.2336  
[wcrader@tfacp.com](mailto:wcrader@tfacp.com)

**TRIBAL BOARD OF ADVISORS**

- BRIAN PATTERSON
- TOM RODGERS
- VALERIE SPICER
- JOHN TAHSUDA
- DANIEL TUCKER

FOLLOW TFA ON: