



CASE STUDY

Evaluating a Bank's Interest Rate Swap

A leading national bank (the “Bank”) was sued by a large corporate client (the “Borrower”) that had taken out several loan agreements and an interest rate swap (“IR Swap”) to hedge the floating rate payment risk. A team of experts from FTI Consulting was engaged by the Bank to review the IR Swap and act as an expert witness.

SITUATION

The Borrower entered a loan with the Bank, which grew significantly through multiple loan agreements and modifications. Two IR Swaps were negotiated between the Bank and the Borrower to hedge the floating rate payment risk of the loans. The Borrower alleged wrongdoing by the Bank in connection with the terms of the second IR Swap and its effectiveness in hedging subsequent loan modifications.

FTI Consulting experts were retained as expert witness to provide written and verbal testimony on whether the IR Swap was transacted in a fair manner and was suitable for the Borrower. In addition, the Borrower argued the Bank should have modified the IR Swap during the loan modifications, which FTI Consulting team also reviewed.

OUR ROLE

The FTI Consulting experts produced an expert report that analyzed the IR Swap and rebutted the Borrower's allegations. We also provided expert verbal testimony.

We independently valued the IR Swap and showed that the market prices were reasonable. In addition, we showed that the Bank adhered to industry standards in executing the IR Swap and in communicating with the Borrower.

We analyzed the appropriateness and effectiveness of the IR Swap at its inception in hedging the floating rate payment risk of the outstanding loan.

The experts at FTI Consulting provided an assessment of alternative derivatives and hedging structures that the Borrower could have used instead of the contentious IR Swap, and we showed that hedging with the IR Swap was the most suitable option for the Borrower's needs.

We reviewed a modification to the loan that the IR Swap hedged and quantified the basis risk before and after the modification.

FTI Consulting team assessed the Borrower's options to modify or terminate the IR Swap at any time. We concluded the Borrower could likely have mitigated the basis risk after the loan modification or terminated the transaction at their discretion.

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OUR IMPACT



FTI Consulting experts provided in-depth analyses and conclusions on the fairness and suitability of the IR Swap as a hedge transaction and the Borrower's ability to modify or terminate the IR Swap. We opined that the Bank did not owe any damages to the Borrower in connection to the IR Swap.



The teams' report was used by the Bank as an essential component of its rebuttal to the Borrower's interest rate swap expert and its defense strategy in the litigation.



Counsel for the Bank was pleased with the thoroughness of our report and the level of analysis that the experts at FTI Consulting performed.