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# Educating Commercial Borrowers: **Explaining Swaps in Plain Language**



## Executive Summary

Swaps offer a straightforward, customizable way to transform floating rate loans into predictable fixed-rate obligations.

Commercial borrowers often hesitate when presented with interest rate swaps. The hesitation is not because swaps lack value—it's because the concept is unfamiliar, filled with jargon, and often explained in overly technical terms. This communication gap leads to confusion and missed opportunities.

Banks can close this gap. By explaining swaps in plain, practical language, bankers empower their borrowers to make informed decisions, protect their businesses against rate volatility, and build long-term confidence in the bank as a trusted financial partner.

This whitepaper equips bankers with a framework for borrower education: simple definitions, relatable examples, communication tools, and case studies. It also highlights how community and regional banks can strengthen client trust and compete with larger institutions through education.

The goal is to make swaps accessible and borrower-friendly, ensuring they are viewed not as complex financial products, but as strategic tools for stability and growth.

## Why Borrower Education Matters

- **The complexity gap:** Commercial borrowers often hesitate when presented with interest rate swaps. For many business owners, the word “swap” sounds like Wall Street jargon. Without a financial background, they may see swaps as risky or unnecessary.
- **The trust factor:** Borrowers rely on their community bank to interpret complex concepts. They want their banker to be a translator, not a salesperson.
- **The cost of poor communication:** When swaps are not explained clearly, borrowers may walk away from loans, turn to competitors who offer clearer communication, or worse—take on floating-rate risk without realizing the implications.

Borrower education is essential to winning deals, protecting clients, and positioning the bank as an advisor rather than just a lender.

## Breaking Down the Basics: What is a Swap?

A swap is a straightforward agreement that allows a borrower to take a floating-rate loan and make it behave like a fixed-rate loan.

Plain analogy: Think of it like insurance. Just as you insure your building against fire or storm damage, you can use a swap to decide on how much of your loan to fix and for how long. It's tailored to your needs and goals.

### Jargon-free explanation (one-page takeaway):

- You borrow money from the bank.
- The loan has a floating rate: it moves with the market.
- By entering into a swap, you can lock in a fixed rate on part or all of that floating loan, for a time period that fits your plan.
- The result: your payments are steady and predictable, on terms that match your goals.

The loan and the swap together create the borrower's desired outcome—stable, reliable debt service, customized to their situation. A business knows not just that payments will be steady, but that they've chosen the balance of fixed vs. floating that makes sense for them.

Without Swap	With Swap
Floating loan payments rise and fall with the market.	Floating exposure is offset, allowing fixed-rate predictability.

## How Swaps Fit with Commercial Loans

Here is the borrower's journey:

**Step 1:** The borrower takes a floating-rate loan from the bank.

**Step 2:** The bank offers a swap to convert the floating payments into fixed ones.

**Step 3:** The borrower now has predictable payments, while still keeping the loan with their community bank.

Key message: The swap is not a separate loan. It is an overlay that customizes the loan to the borrower's needs.

## Benefits to Borrowers in Borrower-friendly Language

Borrowers gain confidence, not only in their financing, but also in their ability to align debt management with broader business strategy. Key benefits include:

Predictability	Flexibility	Strategic Control	Level Playing Field
Know exactly what your monthly payments will be with no surprises. You can plan your cash flow accordingly.	Hedge all or part of your loan, and choose the maturity that fits your timeline.	Decide whether to fix payments now or later depending on your view of the market.	Small and mid-sized businesses access the same tools and wholesale pricing Fortune 500 companies benefit from.

## Common Misconceptions and How to Address Them

- **“Swaps are gambling.”**  
Swaps are not about betting on rates. They are about hedging—reducing uncertainty and risk. They reduce risk by taking floating rate uncertainty off the table. Rather than speculating, they create stability.
- **“Swaps are too risky for us.”**  
In reality, swaps reduce risk by eliminating payment volatility. They are risk management tools, not speculative bets.
- **“Swaps lock me in forever.”**  
Swaps can be restructured or terminated if circumstances change. They are flexible tools. Borrowers can hedge a portion of a loan or choose a timeframe that matches their needs.
- **“Swaps mean taking on more debt.”**  
A swap is not a second loan. There is no principal exchange. It's simply an agreement to shift floating risk into fixed certainty.
- **“This sounds too complex.”**  
The bank and its partner manage all the details. Borrowers only see the outcome: stable loan payments.

## Explaining Swaps Across Different Rate Environments

- **Rising rates:** “Fix your rate today to avoid higher payments tomorrow.”
- **Falling rates:** “When fixed rates drop below floating—even before the Fed actually cuts—locking in part of your loan can be an attractive way to secure savings and predictability”

- **Flat rates:** “This is the time to use a swap to lock in stability while rates are calm. You can hedge a portion of debt, combining fixed and floating exposures.”

Swaps are not tied to a single environment—they are relevant in every market cycle.

## Communication Tools for Bankers

- **Sample Talking Point:**  
“Mr./Ms. Borrower, you can think of a swap as a way to turn your adjustable-rate loan into a fixed-rate loan without changing the loan itself.”
- **Simple Chart:**  
A side-by-side comparison of floating vs. fixed payments over time.
- **“Swaps in 90 Seconds” Script:**  
“You have a floating-rate loan. That means if rates go up, your payments rise. A swap lets you ‘swap’ that floating rate for a fixed rate. You don’t change your loan—just the way the interest works. The result is predictability, which helps you plan your cash flow.”
- **Borrower Questions Checklist:**
  1. How important is the predictability of payments to you?
  2. Do you expect rates to rise or fall over your loan term?
  3. Would you like to hedge all or just part of your loan?
  4. Do you prefer stability or flexibility in your financing?

## Case Studies / Illustrative Borrower Examples

- **Manufacturer Example:**  
A manufacturer with an \$8 million loan needed predictable monthly payments for budgeting. A swap gave them stability, allowing them to focus on operations rather than rate movements.
- **Real Estate Developer Example:**  
A developer with a floating construction loan swapped to fixed during the lease-up period, ensuring stable debt service while rental income ramped up.
- **Healthcare Clinic Example:**  
A clinic hedged only part of its loan, matching the swap notional to projected patient revenues. This gave them confidence in meeting obligations without over-hedging.

## The Bank's Role as Educator and Trusted Partner

Banks should position swaps as part of an **advisory conversation**, not as a “product pitch.”

- The bank and its partners handle the technical work: documentation, settlements, and compliance.
- The borrower receives a clear outcome: debt service aligned with their business needs.
- Education builds trust, and trust builds long-term relationships that extend beyond a single loan.

Effective education positions banks as trusted advisors. By listening first and understanding borrower objectives, risk tolerance, and future plans, lenders can present swaps as solutions rather than products.

## Leveling the Playing Field for Smaller Lenders

Historically, swaps were tools used by large balance sheet lenders. Smaller banks often lacked access to the same wholesale pricing and structuring capabilities. That dynamic has changed.

Today, community and regional banks can offer swaps to their clients, giving borrowers the same risk management options previously reserved for Fortune 500 companies. This levels the playing field in three ways:

- **Client Retention** - Borrowers no longer need to move to a larger institution to access risk management tools.
- **Competitive Positioning** - Smaller lenders can match the sophistication of big banks while maintaining stronger personal relationships.
- **Growth Opportunities** - Offering swaps creates value for both sides, deepening borrower relationships and opening the door to additional business.

And critically, the relevant audience inside these institutions extends beyond the lending desk. Chief Investment Officers, CFOs, Corporate Treasurers, and derivatives-focused professionals all influence how swaps are adopted and applied. Engaging this broader decision-making layer is essential for long-term growth.

## Conclusion and Call to Action

Swaps are not as complicated as they may first appear. With the right explanation, commercial borrowers can quickly understand them as tools for stability and growth.

### **Banks that take the time to educate their borrowers will:**

- Win more deals.
- Retain more clients.
- Strengthen their role as advisors in the community.

At their core, swaps are not about selling a product—they are about solving a problem. They give borrowers predictability, flexibility, and strategic control over loan costs. For banks, they provide a way to build trust, retain clients, and compete effectively against larger institutions.

When explained clearly and aligned with borrower objectives, swaps move from misunderstood jargon to valuable tools. By prioritizing education over sales, lenders strengthen relationships that endure through every interest rate cycle.

**Call to Action:** Adopt the borrower-friendly language, tools, and examples outlined in this paper. Equip every borrower conversation with clarity and confidence. For questions and more guidance on our how to educate borrowers on swaps, reach out to [josh.cannington@stonex.com](mailto:josh.cannington@stonex.com), Head of Swap Desk at StoneX.

## StoneX Pro

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# Get in touch



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