# INTEREST RATE RISK MANAGEMENT

MANAGING INTEREST RATE RISK ON YOUR LOAN

You work hard to protect and grow your business.

With so many things outside of your control, interest costs are one aspect of your business that you can manage.

Loan facilities can help business customers grow, but interest costs can be a major expense for businesses.

Interest rates are cyclical and will continue to rise and fall over time, though you may also see periods of relative stability.

These fluctuations in interest rates can affect your cash flow or investment return.

However, you have the option to manage a portion, or all, of your interest costs via a risk management strategy. This can provide certainty over one of your major expenses, allowing more time to focus on other aspects of your business.

The most frequently used strategy is a fixed interest rate. By fixing your interest rate you lock in your interest costs for a specific period of time.

You remove uncertainty associated with market fluctuations, and it allows you to manage your cash flow.

There are also other strategies available that might better suit your view, your circumstances or the market outlook.

Some include:

- a cap, which lets you pay the floating rate up to a maximum interest rate for a period, protecting you from rates above the maximum.

- and a range, which has a maximum rate like a cap, but also has a minimum rate agreed for the term. The rate paid fluctuates between the maximum and the minimum levels in line with the floating rate.

By implementing an interest rate strategy, your business could benefit from managing market fluctuations and cash flow certainty.

Terms are contracted at the time of locking in your interest rate strategy. Any change to these terms, including early repayment, can incur costs.

So it’s important to consider your circumstances, expected repayments and future funding requirements before locking in a rate strategy.

Our markets specialists can assist in tailoring a solution that suits your view and circumstances.

Here are a few questions you may consider:

1. Where do you see interest rates going over the next 3 years?
2. If rates were to rise, or fall, how would this impact your bottom line?
3. Do you need flexibility to make additional principal repayments?
4. Might you consider selling the asset or business within the facility term?

One of our specialists can work with you to help create a risk management strategy tailored to your business needs.

Talk to us today.

NAB. More than money.

The information provided in this video is intended to be of a general nature only. It has been prepared without taking into account your objectives, financial situation or needs. Before acting on the information on this webpage, National Australia Bank Limited (ABN 12 004 044 937, AFSL and Australian Credit License 230686) (NAB) recommends you consider whether it is appropriate for your objectives, financial situation and needs. NAB recommends that you seek independent advice before acting on any information in this video.