IC Brief

PARA BELLUM ADVISORS

Warehouse Facility Rate Mismatch – Originator

Scenario Type: Private Credit – Origination Platform (Warehouse Funding & Margin Stability)
Asset Class: Asset-Based Lending (Receivables / Inventory / Supply Chain Finance – Asia)
Risk Focus: Floating funding shock, margin compression, covenant pressure, forced deleveraging, liquidity and governance stress
Primary Offer: Hedge Rebuild™ (Funding & Margin Risk Redesign)

1. Decision Context

This scenario addresses a recurring failure in private credit origination platforms where **loan pricing appears short-dated**, but **funding risk behaves structurally long**.

The issue is not credit losses or poor underwriting.
It is a **timing and control failure** between floating warehouse funding that reprices instantly and asset yields that reprice slowly or not at all.

By the time margin compression becomes visible, governance options are already constrained.

2. The Structural Problem

In warehouse-funded origination platforms:

- Funding costs reset immediately with base rates
- Loan pricing is constrained by borrower commitments (12–24 months)
- Utilisation is high and variable
- Repricing is commercially and politically difficult

This creates a **leveraged floating-rate exposure** that is rarely treated as a hedgeable risk position.

What looks like short duration in isolation behaves like a fixed-rate book funded floating – with convex downside.

3. Why This Matters at Portfolio Level

Once rates move sharply:

- Margin compression accelerates faster than repricing ability
- Covenants tighten despite stable credit performance
- Boards debate pricing optics instead of risk control
- Growth becomes hostage to funding volatility

The platform shifts from **growth engine to survival mode** without a single loan default.

4. What Fails if Left Untreated

If funding risk is not explicitly bounded:

- Profitability collapses before action is taken
- Repricing decisions lag reality and burn equity
- Covenants are breached due to mechanics, not credit
- Management attention is consumed by rate narratives

Capital is lost quietly – without improving downside protection.

5. Illustrative Structuring Response

The objective is **not to lock funding costs**.

It is to **cap the failure zone while preserving upside**.

This typically involves:

- Bounded protection (e.g. collars rather than swaps)
- Dynamic hedge notionals aligned to utilisation
- Forward-start protection for committed growth
- Explicit design around CSA, settlement timing, and governance triggers

Structure first. Instruments second.

6. Intended Outcome

- Margin survival under rate shock
- Retention of upside if rates normalise
- Reduced basis from utilisation swings
- Clear board-level decision thresholds
- Improved lender posture through demonstrable risk control

This is a **capital control intervention**, not a market timing exercise.

7. Applicability

Most relevant where:

- Platforms are warehouse-funded at high utilisation
- Asset repricing lags funding resets
- ROE collapses despite stable credit performance

Less relevant where:

- Assets reprice cleanly with funding
- Utilisation is optional or low
- Credit losses dominate outcomes

8. IC Takeaway

This is not a pricing problem. It is not a credit problem.

It is a **funding convexity problem**.

Left untreated, it turns rate volatility into existential risk.

9. Engagement Path

Primary: Hedge Rebuild™ – Funding & Margin Risk Redesign
Secondary / Bespoke: Forward-start protection, CSA and settlement redesign, hedge accounting support, lender negotiation, monitoring dashboards

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only.
Not a transaction summary or client-specific case study.