PARA BELLUM ADVISORS

PRIVATE CREDIT · ORIGINATION PLATFORM

Warehouse Facility Rate Mismatch – Private Credit 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 warehouse cost shock vs sticky asset yields; margin compression; forced deleveraging; liquidity strain under rate moves
PRIMARY OFFER	Hedge Rebuild™
RELEVANT SERVICES	Hedge Rebuild™ · Capital Drag Audit™ · Warehouse hedge design · Rate collars / caps · Dynamic notional frameworks · Forward-start hedging · CSA design · Covenant negotiation support

THE SITUATION

A Hong Kong-based asset-based lending originator scaled to approximately USD 1.2bn across receivables finance, inventory finance, and supply chain bridging across Greater China and Southeast Asia. Their edge was execution – approvals and funding in 48 to 72 hours – competing on speed, certainty, and flexible structuring rather than headline rate.

Funding was primarily through a bank warehouse facility: floating base (SOFR) plus margin, quarterly resets, borrowing base tied to eligible receivables and inventory. Utilisation ran high most of the time because the platform's economics depended on keeping the warehouse working.

What was missing was derivatives and funding-risk discipline. The warehouse was treated as plumbing, not as a large, leveraged floating-rate position. In the low-rate era, the model printed ROE. When rates moved quickly, it became clear the platform was effectively running a leveraged carry trade where the liability reprices instantly and the asset book does not.

HOW THE TRAP FORMS

This does not show up as an obvious hedging failure. It shows up as commercial friction, then margin collapse, then board panic.

The warehouse resets immediately. The loan book reprices slowly. Even when individual drawdowns are 90 to 180 days, pricing is typically set at the facility level – a 12 to 24-month borrower commitment. The platform cannot reprice most of its AUM without breaking commitments or forcing churn.

Spread compression hits twice. First, base rates rise and funding cost explodes. Second, competitive dynamics prevent passing it through – banks with deposit funding price inside you, and other non-banks discount to keep volumes. Pricing moves lag reality, and you burn equity while the debate continues.

The end state is predictable: profitability falls to near-zero even if credit losses are fine, covenants start biting, and management spends board meetings explaining rate mechanics instead of running the business.

WHAT TYPICALLY BREAKS

The platform was not short duration in the way it thought

Loan drawdowns are short. But client commitments and repricing constraints are long. The distinction is invisible in calm markets and fatal in a rate shock.

Timing risk dominates level risk

Survival depends on when borrower facilities roll, when the warehouse renews, and when repricing becomes feasible without churn. That timing mismatch is the problem – not a DV01 number.

Vanilla swaps solve the wrong problem

A fixed-rate swap neutralises direction but creates basis risk when utilisation is not static, gives up valuable downside if rates fall, and creates termination optionality problems if the warehouse is refinanced or resized mid-tenor.

Liquidity and settlement are first-order risks

Even zero-premium structures can create cash strain through CSA thresholds, forward-start mark-to-market behaviour, and settlement lags versus facility debits. If those are not designed upfront, the hedge becomes another source of stress.

THE STRUCTURAL INSIGHT

The principle was simple: cap the failure zone, keep the upside, match the exposure.

Rather than locking a fixed funding cost via a swap, a rate collar was used – buy a cap at the level where the business model fails, sell a floor at a level where the platform can still operate acceptably, and stay floating inside the band. If rates spike beyond the cap, the business does not die. If rates fall, the platform still benefits up to the floor.

Hedge notional was designed to adjust to measured average drawn utilisation with guardrails, so the platform was not over-hedged in troughs or exposed in peaks. Forward-start layers were added for known growth tranches so incremental funding would not be exposed to whatever the curve looked like when it was needed.

Once the hedge was structural, it was used to support a warehouse margin negotiation – committing to maintain protection reduced the lender's probability of loss under rate shock, which is only priced if it is contractual and measurable.

INTENDED OUTCOMES

- Margin survival – funding cost capped beyond the failure threshold, so origination continues through a rate stress cycle.
- Upside retained – benefit from rate cuts or normalisation preserved rather than locked away in a fixed-rate swap indefinitely.
- Exposure aligned – hidden basis from utilisation swings and refinance events reduced through dynamic notional design.
- Governance clarity – ad-hoc repricing debates replaced with explicit policy, thresholds, and action triggers visible to the board.
- Lender posture improved – rate shock converted from an uncontrolled risk to a managed one, improving warehouse margin negotiation.
- Management focus restored – leadership back to running the lending business rather than narrating macro moves to nervous investors.

WHERE THIS APPLIES

Most relevant for private credit originators that are warehouse-funded with floating base plus margin; running borrower commitments where pricing is sticky for 12 to 24 months; competing against deposit-funded banks that cannot be matched on base-rate pass-through; and operating at high utilisation with meaningful seasonal swings.

Generally less relevant where assets genuinely reprice with the warehouse; the platform can contractually reprice most of AUM within weeks; utilisation is low and the warehouse is a backstop rather than core funding; or the binding constraint is credit losses, not funding mechanics.

TYPICAL ENGAGEMENT PATH

Hedge Rebuild™ – diagnostic and redesign of warehouse funding risk, including failure thresholds, hedge architecture, utilisation alignment, collateral mechanics, and governance policy. Secondary: Forward-start protection for growth tranches, CSA redesign, hedge accounting memo, lender negotiation support, monitoring dashboard.

Illustrative case study for discussion purposes only. Details have been anonymised. Outcomes depend on facility terms, counterparty documentation, market conditions, regulatory treatment, and accounting constraints. Not investment advice.