



Midwest Business Managers Meeting

LIBOR to SOFR Transition

April 22, 2021

PRESENTED BY

Chris Wienk
Principal
Wye River Group
410.267.8811 x302 | wienk@wyeriver.com

WYERIVER.COM

Discussion Topics

• History of LIBOR	2
• Typical LIBOR-Based School Transactions	3
• Transition to SOFR	4
• Key Differences – LIBOR vs. SOFR	5
• Historical Rate Comparison	6
• Adjustments Required	7
• Next Steps for Impacted Schools	8-9
• Closing Thoughts	10

Appendices

- A. Select Online Resources
- B. About Wye River Group

History of LIBOR

- The London InterBank Offered Rate (LIBOR) was established in the 1980s and has continuously served as a widely accepted “reference rate” for a variety of financial contracts including lines of credit, loans and interest rate swaps
- LIBOR is derived from the average daily rate at which major global banks lend to one another and is reported in maturities ranging from 1 day to 12 months
- LIBOR has commonly been referred to as the “world’s most important number” and is estimated to serve as a benchmark rate in over \$400 trillion of financial contracts throughout the world and approx. \$200 trillion here in the U.S.
- Due to scandals regarding the manipulation of LIBOR by certain banks, regulators announced that they would no longer compel banks to report interbank lending rates beyond December 2021
- In December 2020, the deadline for complete LIBOR “cessation” was extended by 18 months (to June 30, 2023)
- U.S. regulators are actively encouraging banks to cease using LIBOR for new contracts as soon as possible and in any event, by December 31, 2021

Typical LIBOR-Based School Transactions

Credit Facilities

- Lines of Credit
- Taxable Variable Rate Loans
- Tax-Exempt Variable Rate Bonds

Derivatives

- Interest Rate Swaps
- Interest Rate Caps and Floors
- Rate Lock Agreements

Transition to SOFR

- Following the UK Financial Conduct Authority's (FCA) announcement of the eventual discontinuation of LIBOR, the New York Federal Reserve began publishing the Secured Overnight Financing Rate (SOFR), a measure of the cost of borrowing cash overnight collateralized by Treasury securities
- Rather than relying on bank-reported values, SOFR is derived from actual market transactions. The result is a more objective and transparent benchmark rate
- SOFR is backed by the Alternative Reference Rates Committee (AARC) division of the New York Fed and has been identified by US regulators as the replacement for US Dollar-based LIBOR contracts
- Notwithstanding some early volatility, SOFR generally tracks the Fed Funds rate (which LIBOR also generally tracks) and has been approx. 11 basis points (0.11%) lower on average than 1-Month LIBOR (the most common LIBOR index used in variable rate loans and derivative transactions for schools)

Key Differences – LIBOR vs. SOFR

LIBOR

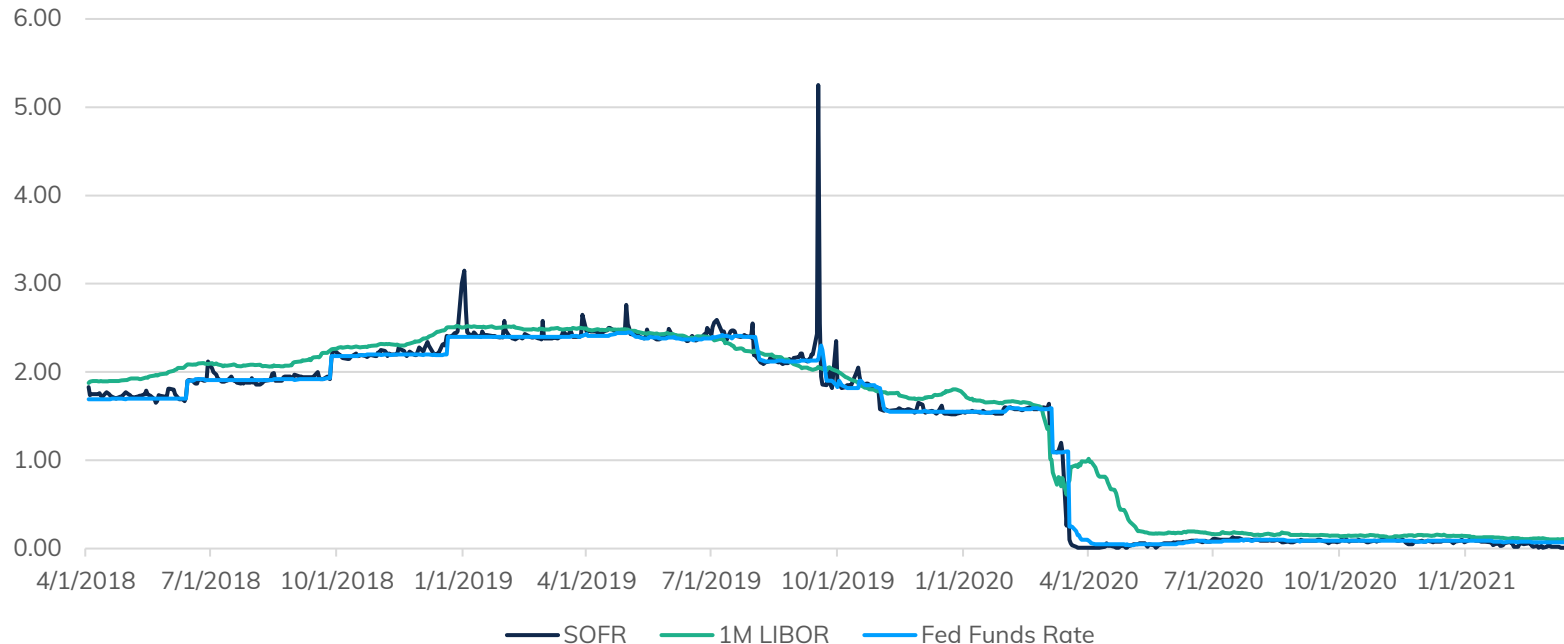
- Forward-looking rate
- Published for multiple terms (i.e. 1-Month, 3-Month, etc.)
- Unsecured (includes bank credit risk for term selected)
- Based on relatively small number of transactions between participating and reporting banks
- User-friendly (single rate applicable for full period)

SOFR

- Backward-looking rate (rate known at the end of the interest period)
- One term (overnight; requires averaging or compounding of rates over the stated interest period)
- Secured (collateralized using U.S. Treasuries)
- Based on hundreds of billions of actual transactions daily
- Less user-friendly (rate lookbacks, averaging and compounding can be more difficult to calculate and monitor)

Historical Rate Comparison

Historical SOFR vs. 1-Month LIBOR vs. Fed Funds Rate



- Since the inception of SOFR in April 2018, its correlation with other major benchmark rates, including 1-Month LIBOR and the Fed Funds Rate, has been strong
- However, SOFR has proved to be slightly more volatile over time, in part, because it is based on live market events and can be sensitive to issues in the money market (see spike in graph above)
- An 11.448 BP spread adjustment will be applied to transactions whose reference rates transition from 1-Month LIBOR to SOFR in order to account for this estimated average difference

Adjustments Required

For schools with existing LIBOR-based lines of credit, loans and/or interest rate swaps, two key adjustments will be required to equate your existing LIBOR-based rate to a new SOFR-based rate

Term Adjustment

- The compounding or averaging of the daily SOFR rate over a given period
- The most common adjustment for schools will be the conversion of a 1-Month LIBOR rate to a 30-day compounded SOFR rate

Spread Adjustment

- The historical difference (expressed in basis points) between unsecured LIBOR and secured SOFR
- The most common adjustment for schools will be the conversion of 1-Month LIBOR to SOFR + 11.448 BPs (0.11448%)*

** This spread adjustment was permanently fixed on March 5, 2021. The 3-Month LIBOR to SOFR adjustment is 26.161 BPs (also permanently fixed). The spread adjustment is intended to match the replacement SOFR index to the previous LIBOR index and minimize any economic impact of the index replacement to the borrower*

Next Steps for Impacted Schools

LIBOR-based Loans and Lines of Credit

- It is recommended that schools review their existing financing and derivative agreements based on LIBOR to determine whether appropriate LIBOR “fallback” provisions exist. If they do not, the agreements may need to be amended
- Unfortunately, there has been no universal way in which LIBOR fallback has been documented in financing agreements to date (often depends on the lender and attorneys involved). As such, the fallback solution will likely be somewhat customized to each school and may need to involve negotiations with the school’s existing lender
- In the case of tax-exempt transactions, the involvement of bond counsel and the conduit issuer may also be required
- Ultimately, many of the LIBOR transition steps are voluntary, and it is up to each school to make a well-informed decision regarding next steps for their organization, while weighing the potential risks of nonaction

Next Steps for Impacted Schools

LIBOR-based Swaps and Other Derivative Products

- For derivatives contracts, the International Swaps and Derivatives Association (ISDA) provides a mechanism for the bilateral modification of derivatives contracts to incorporate new language that provides a clear transition from LIBOR to SOFR
- The ISDA 2020 IBOR Fallbacks Protocol supplement existing ISDA definitions and, specifically, replace the definition of “USD-LIBOR-BBA” which is the most common floating rate index used by schools
- This Protocol is intended to be more flexible and “future proof” than previous ISDA definitions and outlines the adoption of a series of “alternative reference rates” if SOFR were to itself be eventually discontinued
- All derivative transactions commencing on or after January 25, 2021 (the Protocol Effective Date) will automatically incorporate the new Protocol and ISDA fallback provisions

Closing Thoughts

Do's and Don'ts

- Do understand that LIBOR is going away and your school's financial obligations may be impacted
- Don't assume that the economics of your loan, bond or swap will be the same post-transition
- Don't decouple your loan from any related interest rate swap by agreeing to LIBOR transition for one instrument but not the other (or transitioning to LIBOR for one instrument well before the other)
- Do consult with your financial and legal advisors

We're Here to Help

- General guidance and education on LIBOR and the transition to SOFR
- Conformance with new ISDA protocols for schools with interest rates swaps
- Negotiation of modifications and amendments to existing loan and derivative agreements
- When appropriate, wholesale restructuring and/or refinancing of the school's impacted debt and/or hedge position



APPENDIX A

SELECT ONLINE RESOURCES



Select Online Resources

Alternative Reference Rate Committee (ARRC)

- [Main Website](#)
- [Transition Overview](#)
- [User's Guide to SOFR](#)
- [SOFR Data](#)

Financial Conduct Authority (FCA)

- [Main Website](#)
- [End of LIBOR Press Releases](#)
- [LIBOR Transition](#)

International Swaps and Derivatives Association (ISDA)

- [Main Website](#)
- [Benchmark Reform and LIBOR Transition](#)

LIBOR Transition Blogs and Other Resources

- [McGuireWoods – LIBOR Transition Blog](#)
- [Orrick – LIBOR Transition and Contract Remediation](#)
- [Holland & Knight – LIBOR Transition Insights](#)
- [Deloitte – LIBOR Transition Newsletter](#)

APPENDIX B

ABOUT WYE RIVER GROUP



Introduction

Firm Overview

- Nationally recognized financial advisory firm specializing in project debt financing and related services for non-profit educational institutions and other tax-exempt borrowers
- The nation's leading independent financial advisor to non-profit K-12 schools for facility-related debt financings
- "Independent Registered Municipal Advisor" (or IRMA) with the SEC and MSRB
- Unlike commercial banks, investment banks and broker dealer firms, we have a fiduciary duty to our clients to ensure that their best interests are protected at all times regardless of the structure of our clients' financings

Expertise

- We are committed to tailoring financing solutions that meet our client's unique needs
 - Interim and permanent financings
 - Direct purchases of tax-exempt and taxable bonds (i.e. bank-based and other direct loan financings)
 - Capital markets-based financings (i.e. rated and non-rated fixed rate bonds)
 - All forms of tax-credit and government program financings
- Highly-effective process for ensuring the most competitive pricing of publicly offered bonds and competitively bidding and negotiating direct loans and derivatives-based transactions

Experience

- Over 750 debt financings totaling \$35+ billion for borrowers in the education, healthcare, governmental, and association and foundation sectors
- Over 250 educational clients served throughout the country
- 10-person advisory team which can provide comprehensive services in any transaction
- Strong relationships with all major financial institutions, credit enhancement providers and derivative counterparties in the United States
- Senior professionals with extensive experience as both underwriters and independent financial advisors provides a unique perspective in representing our non-profit clients

Select School Clients

We Serve Schools All Around The Country



Oregon Episcopal School • The Fay School • St. Andrew's School • The Forman School • The Spence School • Saint David's School
 The Out-of-Door Academy • Trinity School • Woods Academy • The Field School • Gilman School • Lowell School • Maret School
 Mount Saint Joseph's High School • University School • Saint Mary's Ryken High School • Alexandria County Day School
 Washington Christian Academy • Our Lady of Good Counsel High School • Thayer Academy • University Prep • Windrush School
 Saint John's Catholic Prep • Green Acres School • Calvert School • Bryn Mawr School • Western Reserve Academy
 Hathaway Brown School • Maret School • The Wheeler School • The Park School • Stone Ridge School • Loyola Blakefield
 Bishop McNamara • Blake School • Archer School for Girls • Patterson Park PCS • KIPP DC, Albany, Bay Area, Delta, Colorado, Jackson
 Green Street Academy • East Harlem Scholars Academies • The SEED School • Hyde Leadership • Friendship PCS • Brilla PCS

Client Services Summary

Financial Advisory Services



- Project Planning & Analysis
- Financing Solicitations
- Transaction Implementation



- Hedging Alternatives Analysis
- Valuation & Effectiveness Reports
- Rate Verifications & Negotiations



Derivative Advisory Services

Investment Advisory Services



- Asset Allocation
- Manager & Fund Selection
- Performance Monitoring



Project-Specific Advisory Services



PROJECT PLANNING

- Financial Modeling, Projections, and Sensitivity Analysis
 - Evaluation of Financing Options
 - Debt Capacity and Debt Affordability Analysis
 - Credit Rating Assessments
 - Finance Plan Development
-



FINANCING SOLICITATIONS

- Development of Comprehensive Financing Solicitation Materials
 - Dissemination of all Materials on Password Protected Website
 - Deliberate Follow-up with Financing Candidates to Address Questions, Foster Interest and Optimize Response Rate
 - Extensive Analysis and Ranking of Proposals Received
-



TRANSACTION IMPLEMENTATION

- Finance Team Coordination
- Document Drafting Assistance
- Tax Analysis Support and Execution of Related Certificates
- Monitoring of Market Conditions
- Structured Investment of Bond Proceeds

How We Work

Fee Structure

- Hourly rate basis
- Ensures independence
- We always look for the best outcome for the client; we are not incented to close (or size) a transaction under a success fee structure
- Fixed and not-to-exceed fee amounts are available depending on the needs of the client and the nature of the assignment

- Services are provided “a-la-carte” as determined by the borrower
- For example, borrower may engage Wye River for just finance plan development and Board recommendations; bond pricing; direct loan or underwriter solicitation/negotiation; derivative advisory services; etc.
- Our firm’s engagement letters always allow for termination by the client at any time with 5 days’ notice

Benefits

Outcomes

- No bias for any one financing structure versus another, only for the best result for the client
- We do not take compensation from any entity other than our financial advisory client
- Any conflict – or potential conflict – is immediately identified and resolved in favor of the client

Presenter Bio



CHRIS WIENK

Principal

A graduate of the University of Maryland (BS Finance, MBA), Mr. Wienk has over 20 years of experience providing financial advisory services and has served as lead or co-lead advisor on over 300 tax-exempt and taxable bond financings for a wide array of non-profit and governmental clients around the country. He specializes in debt financings and related transactions for independent schools, charter schools and higher educational institutions. Mr. Wienk co-leads the firm's competitive financing solicitation efforts and derivative advisory practice. He is a Registered Municipal Advisor (MSRB Series 50).

Select Schools Served (Past 5 Years)

Gonzaga College H.S., Marymount School of NY, Saint Francis H.S., The Field School, Gilman School, Northfield Mount Herman, Norwood School, Western Reserve Academy, Bryn Mawr School, St. Paul's School, Stone Ridge School, Archer School for Girls, DeMatha Catholic High School, Hathaway Brown School, Notre Dame Prep, Blake School, Boys' Latin School, Miami Country Day School, St. John's College H.S., St. Mark's Episcopal School, St. Mary's World School, Out-of-Door Academy, Severn School, St. Andrew's School, University School, Xaverian H.S.



wienk@wyeriver.com



C 443.852.0096

O 410.267.8811 x302

A stylized circular logo in a dark blue color, featuring a tree on the left and a winding river or path on the right, set against a dark blue background.

WYERIVER

INDEPENDENT FINANCIAL ADVISORS