



LIBOR TO SOFR

ROUNDING INDEX + SPREAD

Release 19F, Release 20 and Above

Compatible Releases:

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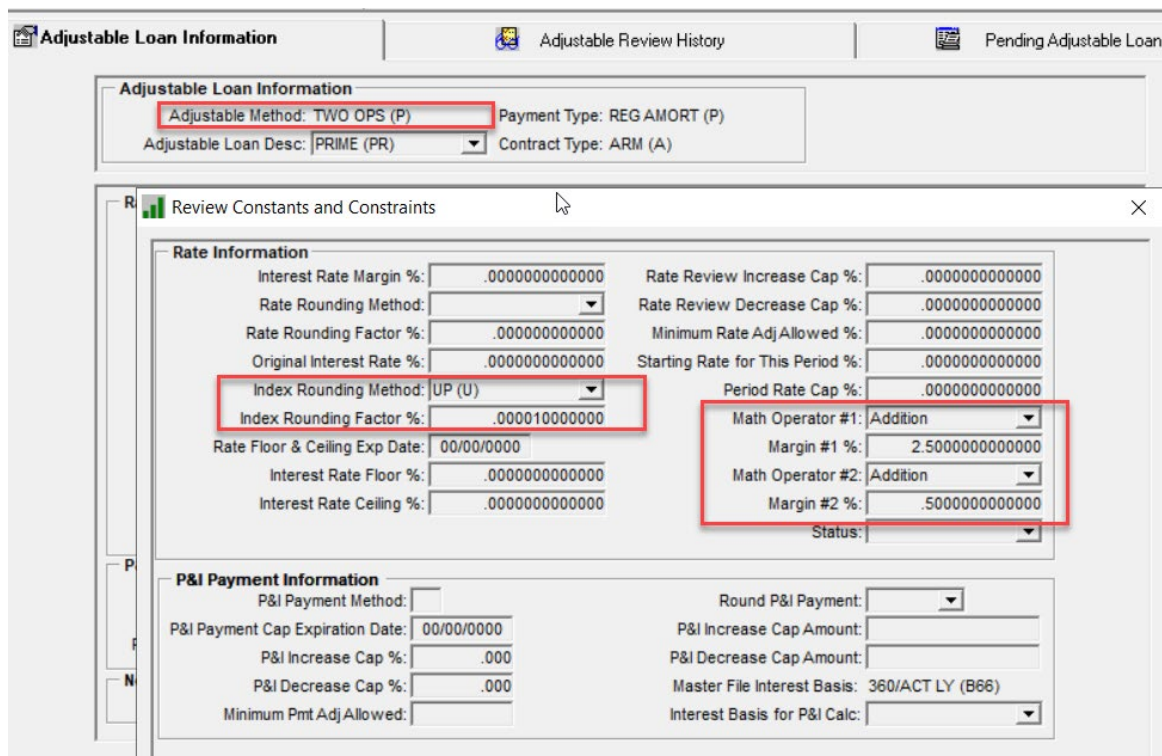
LIBOR to SOFR Transition

McCracken is in the process of creating a change to address a rounding scenario not currently handled by Strategy. This change will go into Release 20A. The change will also be available at Release 19F and Release 20 and will not require a Strategy build to install. Job #22782

The final Fed ruling implementing the LIBOR Act was published recently and it introduced a conforming change to the loan documents that stated for a loan moving from LIBOR to SOFR after the June 30 cessation date, the original rounding from the loan document would be honored. Therefore, if LIBOR loans currently have a rounding convention, it will apply to the loans that transition to SOFR.

The LIBOR Act also states that loans that are transitioning from LIBOR to a SOFR rate, may have an additional Tenor Spread Adjustment. Strategy supports the loans transitioning from LIBOR to SOFR, using Strategy's Adjustable Method P to apply both the Margin and Spread Adjustment to the SOFR index. Adjustable Methods P (Two Ops) uses fields on the Constants and Constraints screen of the Adjustable Loan Information window to enter both a Margin and a Tenor Spread Adjustment.

- Index: Adjustable Loan Info Screen – selected SOFR replacement Rate
- Margin #1% Constants & Constraints - Enter the Margin stated in the loan agreement
- Math Operator #1: Constants and Constraints Addition
- Margin #2%: Constants & Constraints - Enter the Tenor Spread Adjustment
- Math Operator #2: Constants and Constraints Addition



The assumption at the time of Release 19F was that the rounding would apply to:

- the SOFR Index which would be supported by Strategy's Index Rounding function, or
- to the new rate as a whole (Index + Tenor Spread Adjustment + Margin), also supported by Strategy using the Rate Rounding function.

The final Fed ruling states that the rounding convention used for the LIBOR index will apply to the benchmark replacement for most cash products . The benchmark replacement is defined as the SUM of the comparable maturity term SOFR Rate + the Tenor Spread Adjustment. This rounding method is not supported by Strategy.

Change to Strategy at Release 19F and Above Coming

To support the new rounding requirement, McCracken will be making a backend programming change to support the new rounding calculation for Adjustable Method P.

Original Index Rounding Calculation:

1. RATE = Index
2. The Index Rounding Factor must be greater than 0,
 - a. RATE is rounded based on the Index Rounding Factor and Index Rounding Method
(If Index Rounding Method is to Nearest 1/8th, enter 0.0125% in Rounding Factor)
3. RATE is adjusted by Margin #1 % based on Math Operator #1
(Margin from Agreement is entered in the Margin#1% field)
*(Math Operator#1 can be Add (Rate +Margin#1%), Multiply (Rate *Margin#1%) or Divide (Rate / Margin #1%))*
RATE is adjusted by Margin #2 % based on Math Operator #2
(Tenor Spread Adjustment must always be in the Margin#2% field)

New Index Rounding Calculation for Adjustable Method P.

1. RATE = Index + Margin#2 %
(Tenor Spread Adjustment must always be in the Margin#2% field)
(Math Operator #2 is defaulted to Add by the program)
2. The Index Rounding Factor must be greater than 0,
 - a. RATE is rounded based on the Index Rounding Factor and Index Round Method (Unconditionally Up, Unconditionally Down, or to the Nearest 1/8th of a percent).
(If Index Rounding Method is to Nearest 1/8th, enter 0.0125% in Rounding Factor)
3. RATE is adjusted by Margin #1 % based on Math Operator #1
(Margin from Agreement is entered in the Margin#1% field)
*(Math Operator#1 can be Add (Rate +Margin#1%), Multiply (Rate *Margin#1%) or Divide (Rate / Margin #1%))*

LIBOR to SOFR Rounding Change

For those loan agreements that may require that the rounding be applied to the Rate after the Margin is applied to the LIBOR Index, Strategy's Rate Rounding feature will add both the Margin #1% and Margin #2% and then round the Rate based on the values entered in the Rate Rounding Method and Rate Rounding Factor.

Activating the New Index Rounding Calculate for Adjustable Method P

Not all customers or loans may use this rounding method, so to apply the use of the New Index Rounding Calculation for Adjustable Method P for a loan, McCracken is placing a loan level User Defined Field on the Adjustable Loan tab to activate the option for each loan that requires this calculation.

The User Defined Field will be added programmatically when the patch is applied as an Inactive User Defined Field. If using the New Index Rounding Calculation for Adjustable Method P for any of your Adjustable Loans, you must change the User Defined field **Use Round Index + Spread** to 'Active' using UDF Maintenance.

If the **Use Round Index + Spread** UDF is set to 'Inactive', the field will not appear on the Adjustable Loans, User Defined Fields window and when the Rate Review takes place, any values entered in **Use Round Index + Spread** user-defined field will be ignored and the Original Index Rounding Calculation will continue to be used.

Field Name	Type	Len.	Prec.	Mult.	Active	Rec. Level
Expiration Provisions	TEXT	16	0		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Terms Auth. Release Funds	TEXT	20	0		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reviewer	TEXT	25	0		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Use Round Index + Spread	YES/NO	1	0		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

× To change the status of the **Use Round Index + Spread** UDF to Active go to Tools>Maintenance>User Defined Fields

For any loan that requires the rounding of SOFR plus the Spread Adjustment, the value in the **Use Round Index + Spread** will need to be set to a 'Y'.

The field can be manually updated from the Adjustable Loan Tab>Additional>User Defined Fields. When added, the field will appear at the bottom of the list of User Defined Fields if you have any other User Defined Fields associated with the Adjustable Loan tab.

.1- Make the User Defined Field Active to use the New Index Rounding Calculation for Method P for even one loan.

Use Round Index + Spread : ☐

OK Cancel Apply Help

2- Adjustable Loan>Additional Menu>User Defined Fields

If the ***Use Round Index + Spread*** User Defined Field is Active in the system:

- When the value in the ***Use Round Index + Spread*** is set to ‘Y’ for Yes, and the Index Rounding Factor is greater than zero the New Index Rounding Calculation for Method P above will be used.
- When the value in the ***Use Round Index + Spread*** is set to ‘N’ for ‘No’ or blank, or the Index Rounding Factor is less than or equal to zero the Original Index Rounding Calculation will be used.

If the ***Use Round Index + Spread*** User Defined Field is Inactive in the system, the Original Index Rounding Calculation will be used.

New Mapping Tool Template for adding/updating ‘***Use Round Index + Spread***’

McCracken will provide a new MaTi template to allow Customers to upload the value for the new User Defined Field – ‘***Use Round Index + Spread***’ value to applicable loans.

Users will use a spreadsheet that contains the Account # and the value for the Use Round Index + Spread UDF.

	A	B
	Account #	Use Round Index + Spread
1		
2	100100100	Y
3	100100101	Y
4	100100102	Y
5	200100100	N
6	200100101	N
7	200100102	N

- Only one loan per row
- Account # must exist in PMASTR
- Use Round Index + Spread must be ‘Y’ or ‘N’
 - Y applies the New Index Rounding Calculation
 - N uses the Existing Index Rounding Calculation

Either manual entry on the User Defined Field window in the Adjustable Loan module or the new Mapping Tool can be used to insert or update the value of the field.

If the User Defined Field ‘***Use Round Index + Spread***’ is not made ‘Active’, upon data validation in the Mapping Tool a message will display “Use Round Index + Spread is inactive or not found.”

Mapping Tool Template for Pending Adjustable Loan Changes

Release 19F included a MaTi template for the *Pending Adjustable Loan Changes* file. Updates in Release 19F included fields that were needed to support the Adjustable Methods for transitioning LIBOR loans. This template can be used to update the Index Description, Adjustable Loan Method, Margin #1%, Math Operator #1, Margin #2%, and Math Operator #2 as needed.

	A	B	C	D	E	F	G	H
1	Account #	Effective Date	Adjustable Method	Index Description	Margin 1%	Math Operator #1	Tenor Spread Adjustment Margin 2%	Math Operator #2
2					AXSPD1	AXOP1	AXSPD2	AXOP2
3	MUST EXIST IN PMASTR AND PARM, AND THERE CANNOT BE ANOTHER PENDING ARM CHANGE RECORD FOR THE LOAN WITH THE SAME EFFECTIVE DATE	VALID DATE GREATER THAN OR EQUAL TO THE PRODCSS THROUGH DATE	P	SOFR INDEX USING MUST BE DEFINED PINFO TABLE I2	MARGIN STATED IN THE LIBOR AGREEMENT	A, D OR M	TENOR SPREAD ADJUSTMENT DEFINED FOR TERM SOFR RATE	A

3- Sample Pending Adjustable Loan Changes spreadsheet.

Adjustable Loan Widget

Also included in Release 19F, is the new Adjustable Loan widget that allows users to enter Pending Adjustable Loan Change records. Users can enter or view uploaded Pending Changes to the Adjustable Loan Method, Index Description, Margin #1%, Math Operator #1, Margin #2%, Math Operator #2 fields as needed.

Pending Adjustable Loan Change Detail

Loan # 80043210 Continental Associates Adjustable Method STANDARD (USED FOR T-BILL IDX) (A) Monthly or Daily Review M

Effective Date & Adjustable Loan Description

Status Date Imported from Mapping Tool Mapping Tool User

Effective Date Adjustable Method Adjustable Loan Description

Loan: Rate Information

Monthly or Daily Review <input type="text"/>	Rate Chg Freq <input type="text"/>	<input type="checkbox"/> Look Back Days For Rate Reviews <input type="text"/>	<input type="checkbox"/> Business Calendar <input type="text"/>
<input type="checkbox"/> Look Back Method <input type="text"/>	<input type="checkbox"/> Use Business Calendar: Review Date <input type="text"/>	<input type="checkbox"/> Rate Review Date <input type="text"/>	<input type="checkbox"/> Rate Chg Anniversary Date <input type="text"/>
<input type="checkbox"/> Business Calendar Options <input type="text"/>	<input type="checkbox"/> Rate Change Date <input type="text"/>	<input type="checkbox"/> New Interest Rate % <input type="text"/>	<input type="checkbox"/> Maximum # Of Rate Reviews <input type="text"/>
Use Business Calendar: Change Date <input type="text"/>	<input type="checkbox"/> Original Index/DIAL Base % <input type="text"/>	<input type="checkbox"/> Index Description <input type="text"/>	

Loan: P&I Payment Information

<input type="checkbox"/> P&I Change Freq <input type="text"/>	<input type="checkbox"/> P&I Change Date <input type="text"/>	<input type="checkbox"/> P&I Re-Amortization Freq <input type="text"/>
<input type="checkbox"/> P&I Re-Amort Date <input type="text"/>	<input type="checkbox"/> New P&I Payment <input type="text"/>	<input type="checkbox"/> P&I Amortization "To" Date <input type="text"/>

Constants & Constraints: Rate Information

<input type="checkbox"/> Interest Rate Margin (+ or -) <input type="text"/>	<input type="checkbox"/> Rate Rounding Method <input type="text"/>	<input type="checkbox"/> Rate Rounding Factor <input type="text"/>
<input type="checkbox"/> Index Rounding Method <input type="text"/>	<input type="checkbox"/> Index Rounding Factor % <input type="text"/>	<input type="checkbox"/> Interest Rate Floor % <input type="text"/>
<input type="checkbox"/> Rate Floor & Ceiling Exp Date <input type="text"/>	<input type="checkbox"/> Interest Rate Ceiling % <input type="text"/>	<input type="checkbox"/> Minimum Rate Adj Allowed <input type="text"/>
<input type="checkbox"/> Rate Review Increase Cap % <input type="text"/>	<input type="checkbox"/> Rate Review Decrease Cap % <input type="text"/>	
<input type="checkbox"/> Period Rate Cap % <input type="text"/>	<input type="checkbox"/> Math Operator #1 <input type="text"/>	<input type="checkbox"/> Margin #1 % <input type="text"/>
<input type="checkbox"/> Math Operator #2 <input type="text"/>	<input type="checkbox"/> Margin/Spread #2 % <input type="text"/>	

3-Portal>Adjustable Loans: Pending Adjustable Loan Change Detail allows you to check and enter the appropriate values for the Index Description, Margin #1%, Math Operator #1, Margin #2%, Math Operator #2 fields shown here outlined in Orange. Index Rounding Method and Index Rounding Factor% are also shown here outlined in blue.

LIBOR to SOFR Rounding Change

Since Rounding methods stated in the LIBOR loan agreement will remain the same with the exception of rounding the new SOFR Index PLUS the Tenor Spread Adjustment, your Index Rounding Method and Index Rounding Factor should not require changing, but if changes are needed the fields are available in the Pending Adjustable Loan Changes Details screen as well.

For more information on setting up Adjustable Method P loans or the changes included in Release 19F, see the Adjustable Loan Manual [available here](#).