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Speakers

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Libor Sunset

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What Is LIBOR And Why Do We Care?

- LIBOR = **L**ondon **I**nter**b**ank **O**ffered **R**ate.
 - It serves as the interest rate benchmark for an estimated \$400 trillion of financial products that range from derivatives to mortgage loans – including \$200 trillion in U.S. dollar-denominated contracts alone.



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LIBOR Is Going Away



Federal Reserve Comments on LIBOR

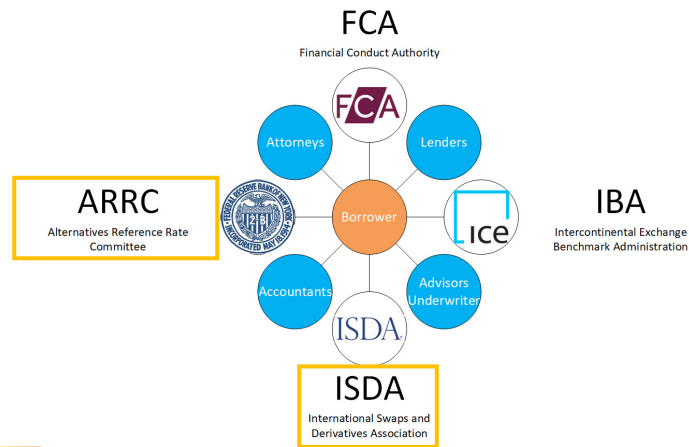
- Financial institutions are encouraged to stop entering into new USD LIBOR contracts “as soon as practicable,” and no later than **December 31, 2021**;
 - Entry into such contracts after December 31, 2021, would create safety and soundness risks for financial institutions;
- The USD LIBOR **June 30, 2023** cessation date will allow more time for existing legacy USD LIBOR contracts to mature; and
 - Financial institutions should use this additional time to continue to prepare for the transition away from LIBOR.



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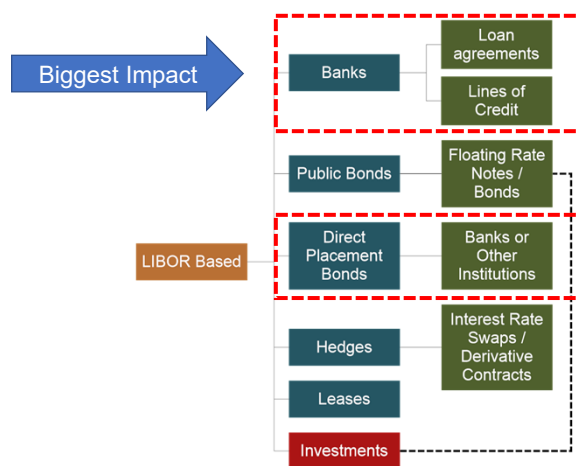
Solutions Cross International Lines



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LIBOR and Higher Education



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Why It Can Be A Problem

- LIBOR contracts may not sufficiently address a permanent discontinuation of LIBOR, or
- Existing fallback language under a LIBOR contract may not lead to a commercially reasonable and equitable outcome
- Common examples in the municipal market:

Floating Rate Notes	Direct Placement Loans	ISDA / Derivatives
<p>If LIBOR is not published, contracts typically require the last known reset of LIBOR to be the reset going forward.</p> <p>Language would essentially convert a floating rate note to a fixed rate instrument assuming a permanent discontinuation.</p>	<p>Fallback language specific to each contract with limited consistency.</p> <p>Common fallback rates often include references to a Prime rate, Fed Funds rate plus a spread and a rate determined by the lender.</p>	<p>ISDA definitions state if LIBOR is unavailable the Calculation Agent shall determine the rate by polling London banks and then, if unsuccessful, polling banks in New York.</p> <p>Designed for a temporary disruption of a LIBOR, not a permanent discontinuation.</p>



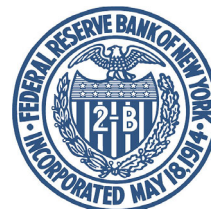
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LIBOR Replacement - SOFR

- The secured overnight financing rate (SOFR) has been identified as the preferred LIBOR replacement benchmark interest rate for US dollar-denominated derivatives and loans.
- SOFR is based on transactions in the Treasury repurchase market and is seen as preferable to LIBOR since it is based on data from observable transactions rather than on estimated borrowing rates.



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Structural Difference LIBOR vs. SOFR

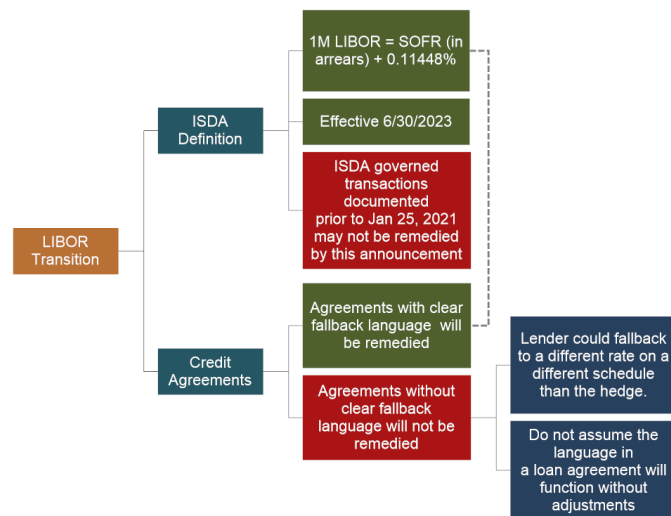
	LIBOR	SOFR
Source	Based on judgment of transactions and market data of a panel of banks; reported by ICE	Based on observable transactions and codified by the FRB of NY
Convention	Interest rate set at beginning of interest period; payment made in arrears at end of interest period	Interest rate set in arrears based on the average daily SOFR over the interest period; payment made in arrears at end of interest period
Security	Unsecured	Secured by US Treasury collateral



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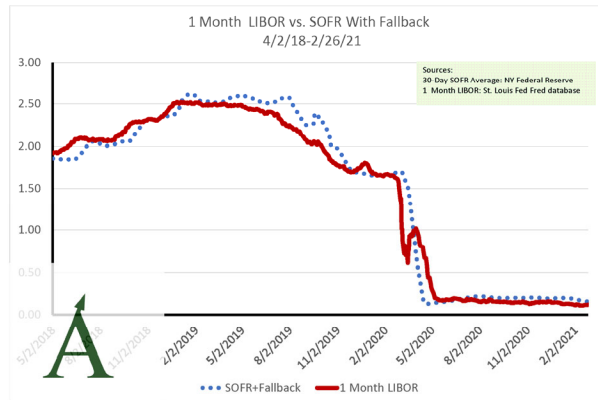
March 5 Was A Watershed Day



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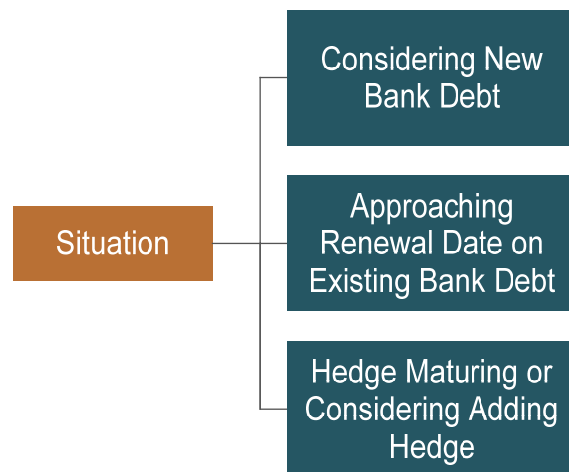
March 5 Has Set the Difference



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Easier Moments of Action



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Considerations Incorporating Strategic View

- Credit capacity with my current lender?
- Other capital / deferred maintenance needs?
- Can my institution's cash flows be enhanced through a refinancing?
- Any covenant performance issues with current obligations?
- My alternatives may include:
 - Public Bond Offerings (Rated / Unrated)
 - USDA loans
 - Bank loans / Private Placements
- Dynamics of the current lending environment may influence decisions



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Comparing different structures

	Bank	Bond	USDA - CF
A			
Size Limits	<\$50MM	>\$5MM	<\$100MM
Days to execute	60-90	90-120	120-360
Accessible to weak credits	⊗	●	●
Committed capital for life of amortization	○	●	●
Requires construction financing separate from permanent	○	○	●
Committed capital for life of amortization	○	●	●
Appraisal / LTV limits	●	○	●
Typical coverage required	1.2X	1.1X	1.0X
Issued tax-exempt	⊗	⊗	○
Geographically restricted (community size)	○	○	●

These comments reflect assumptions for typical transactions. Specific cases may differ.



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Accounting for LIBOR

- Financial Accounting Standards Board (**FASB**) sets accounting standards for conduit borrowers and non-governmental entities.
- If I refund debt, how does it typically impact financial statements and ratios?
- If I terminate hedges, how does it typically impact financial statements and ratios?



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What To Do

Dealing with LIBOR cessation requires you to be proactive. We suggest working with your trusted partners:

- > Advisors;
- > Accountants
- > Attorneys
- > Underwriters

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Know the extent of the problem

- Identify:
- ✓ all LIBOR based contracts;
 - ✓ which have exposure past 6/30/2023;
 - ✓ who has control;
 - ✓ trigger events;
 - ✓ replacement benchmark(s);
 - ✓ how the contract behave in the future?
 - ✓ Disclose material risks.

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Consider other strategic considerations

- ✓ What and when are future capital plans?
- ✓ What are other refinancing alternatives?

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Plan remediation

- ✓ Quantify strategies;
- ✓ Incorporate new, robust fallback language endorsed by ARRC and ISDA;
- ✓ Make it part of a strategic capital plan.



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Q&A



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Summary & Contact information

ACTION ITEMS

Recognize LIBOR is sunsetting

Inventory your institution's LIBOR exposure

Understand that various market participants are impacted differently

Recognize that different financial instruments will have different implications (those with and without market valuation)

Seek assistance

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