Preparing for transition from **LIBOR**

Trustmark

WHAT IS LIBOR?

LIBOR, which stands for the London Interbank Offered Rate, is used globally as a benchmark to gauge funding costs for financial contracts. It is used to help set the interest rates on many commercial and consumer loans, as well as interest rate derivatives and other products offered by financial institutions.

HOW IS LIBOR DETERMINED?

LIBOR is calculated daily by ICE Benchmark Administration, based upon representative borrowing transactions for certain global banks on an unsecured basis. While the rate is established through a submission process by contributor banks based upon actual interbank lending data, it's modified by the judgment of those banks when actual transaction data is insufficient.

WHY IS LIBOR BEING PHASED OUT?

Regulatory reform has resulted in a decline in the volume of actual interbank lending, which means that the calculation of LIBOR has become less reliant on actual interbank lending data and increasingly reliant on judgment. As a result, the United Kingdom Financial Conduct Authority (FCA), which oversees the rate, has indicated it will no longer compel banks to continue to submit rates beyond 2021.

Therefore, it's critical for LIBOR to be replaced by the end of 2021 with a stronger, more reliable benchmark.

WHAT'S THE REPLACEMENT FOR LIBOR?

The Federal Reserve convened the Alternative Reference Rates Committee (ARRC) in 2017 to provide guidance on phasing out LIBOR. The ARRC includes banks, accounting and legal firms, and other industry participants. In 2018, the ARRC recommended the Secured Overnight Financing Rate (SOFR) as an alternative to LIBOR, but the ARRC did not suggest that institutions be required to adopt SOFR. SOFR is based on overnight U.S. Treasury repo markets with over $1 trillion of transactions daily. SOFR is published daily by the Federal Reserve Bank of New York.

Other replacement indices are being considered by regulators and market participants, and we continue to review the potential options.

OUR PREPARATION

Trustmark has established an enterprise-wide team dedicated to the transition from LIBOR. Our team, which is active in many industry working groups, is closely monitoring LIBOR transition developments. When the appropriate time comes, our transition from LIBOR-based products to an alternative rate, will be consistent with prevailing market standards, including adjustment of the applicable spread as appropriate.

No action is required of customers at this time. Trustmark will provide further updates and new documents or amendments to existing documents to facilitate the transition as replacement reference rates and adjustment protocols are identified and implemented in the financial industry generally.

Frequently Asked Questions

HOW DO SOFR AND LIBOR DIFFER?

Again SOFR is the replacement benchmark that has been proposed by ARRC and the Federal Reserve. While we do not yet know whether SOFR will be adopted as the replacement benchmark for LIBOR, we provide a brief overview of the differences between the rates below.

SOFR and LIBOR are calculated differently:

- SOFR is based on actual transactions and is considered a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities, a secure, risk-free measure.
- LIBOR is set by a panel of banks, in many cases estimating what they think their borrowing costs are for unsecured interbank debt.
- SOFR represents an overnight borrowing rate, while LIBOR represents a term borrowing rate.

WHAT WILL BE AFFECTED AND HOW?

It's important that customers whose contracts use LIBOR as the underlying reference rate understand the process for replacing LIBOR with an alternative reference rate.

Most Trustmark commercial loans originated since July 2018 include fallback language which provides for the substitution of an alternative rate in the event that LIBOR is no longer available, as well as the adjustment of the spread to the alternative rate.

As was common in the market, the language in Trustmark commercial loans originated prior to July 2018 did not contemplate the phase-out of LIBOR, so Trustmark will have to modify the loan agreements appropriately.

For loan customers who hedge with derivatives, Trustmark will work to ensure consistent fallback language between contracts so that any hedge instrument remains as effective as possible once the transition has been completed. The International Swap Dealers Association (ISDA) is working on documentation and a protocol for the transition. Trustmark is monitoring ISDA developments and expects to incorporate the documentation and protocol into customer derivative contracts.

WHEN WILL THE TRANSITION TAKE PLACE?

We expect LIBOR to be phased-out by year-end 2021. Trustmark will update customers as key details of the transition plan become available.

WHO DO I CONTACT WITH QUESTIONS?

If you have questions or would like to have a conversation with someone about the transition from LIBOR to SOFR, please speak with a Trustmark Relationship Manager.

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