

Preparing for transition from **LIBOR** Index: Frequently Asked Questions



The LIBOR benchmark index, which is used to determine the interest rate charged on certain adjustable-rate commercial and consumer loans, may no longer be available after June 2023. The LIBOR benchmark includes seven tenors: overnight, one-week, one-month, two-month, three-month, six-month, and twelve-month rates. The one-week and two-month LIBOR index rates will be phased out on December 31, 2021. Other LIBOR index rates will be phased out on June 30, 2023. The phase out of LIBOR will have an impact on loans that use the LIBOR index to determine the applicable interest rate.

Trustmark is working with regulators, peer financial institutions, and other stakeholders to move existing financial products from LIBOR to a replacement index in a way that is fair and transparent to our customers.

Trustmark has prepared the following frequently asked questions (“FAQs”) for customers who have existing Trustmark loans or lines of credit that are tied to LIBOR. These FAQs will be updated from time to time based on any new developments.

WHAT IS LIBOR?

Interest rates can be fixed or calculated by reference to certain benchmark rates. The London Interbank Offered Rate (or “LIBOR”) came into popular use in the 1970s and has been one of the most common benchmarks for interest rates since that time. LIBOR is used globally as a benchmark to gauge funding costs for various 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 published daily by ICE Benchmark Administration (IBA). LIBOR is currently based on submissions from contributor banks that are determined through the use of a standardized, transaction data-driven Waterfall Methodology introduced by IBA. This has been the case since March 2019.

WHY IS LIBOR BEING PHASED OUT?

The United Kingdom Financial Conduct Authority

(FCA), which oversees the LIBOR rate, has indicated it will no longer compel banks to submit rates after June 30, 2023. Some LIBOR index rates will be phased out as early as December 31, 2021, with remaining indices phased out by June 30, 2023. Federal banking regulators have urged regulated U.S. financial institutions to promptly discontinue the use of LIBOR. Variable rate loans made after January 1, 2022, will be priced on an index other than LIBOR. Existing variable rate loans using LIBOR (referred to as “legacy loans”) will be modified to adopt a replacement index prior to LIBOR cessation.

WHAT IS THE REPLACEMENT FOR LIBOR?

The Federal Reserve Bank of New York (the “New York Fed”) convened the Alternative Reference Rates Committee (ARRC) in 2017 to provide guidance on phasing out LIBOR. The ARRC includes banks, accounting firms, law 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 a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities calculated as a volume-weighted median of transaction-level tri-party repo data. Each business day, the New York Fed publishes the SOFR on the New York Fed website at approximately 8:00 a.m., ET.

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

DOES THIS CHANGE TO LIBOR ONLY AFFECT TRUSTMARK?

No. All financial institutions with LIBOR-based loans are in the process of reviewing replacement rates and preparing for the LIBOR phaseout.

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.

Frequently Asked Questions

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 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.

HOW DO SOFR AND LIBOR DIFFER?

SOFR is the replacement benchmark that has been recommended by ARRC and various federal agencies. SOFR is not the sole replacement rate for LIBOR.

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.

WILL MY LOAN PAYMENT CHANGE?

A change from LIBOR to SOFR or another replacement rate will not necessarily change your payment amount, but it will change the index rate and spread. As with any adjustable-rate loan, your payment may change based on fluctuations in the index rate regardless of the index used. Your payment may change any time you have a scheduled interest rate adjustment under the terms of your loan.

WHAT WILL BE AFFECTED AND HOW?

It is 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 index 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. If your loan requires modification, your loan officer will contact you.

For loan customers who hedge interest rate risk with derivatives (such as an interest rate swap), Trustmark will work to ensure consistent fallback language between contracts. 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.

WILL MY INTEREST RATE ADJUSTMENT HAPPEN EARLIER BECAUSE OF THIS CHANGE?

No, your interest rate adjustment will continue to be based on the timing set forth in your loan documents.

WHEN WILL THE TRANSITION TAKE PLACE?

At this time, the financial industry – including banks – is evaluating SOFR and other replacement rates and incorporating “fall back” language in loan documents to allow for substitution of a selected replacement rate. Once an actual replacement rate is selected by the banking industry and individual banks, new loans will use that replacement rate, and existing loans will be modified to include that replacement rate. This process will likely begin in the late part of 2021, continue in 2022, and be complete prior to LIBOR’s complete phase-out set for June 30, 2023. Trustmark will update LIBOR loan customers as key details of the transition plan become available.

WHEN WILL MY ADJUSTABLE-RATE LOAN CHANGE TO A NEW INDEX?

At this time, Trustmark – like most banks – has not selected a replacement rate. Once a replacement rate has been selected, you will be contacted. Our current plans contemplate a new replacement rate to take effect with the first interest rate adjustment period after December 31, 2021. The actual date of implementation is subject to banking regulation and banking industry developments.

WHOM DO I CONTACT WITH QUESTIONS?

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

