LET'S SOLVE THE LENDING LIFE CYCLE.

4 Steps to implementing new interest rate benchmarks

FIS

The countdown to the cessation of the London Inter-bank Offered Rate (LIBOR) continues. By 2022, will you be ready to calculate interest using risk-free reference rates like SOFR and SONIA, which are set to take LIBOR's place?

New rates will challenge operations

For commercial lenders, the most viable options for calculating SOFR, SONIA and others are simple interest and compounding in arrears calculations. Both bring their own mathematical and operational challenges, as the new risk-free rates (RFRs) will change daily and mainly won't be published until the following day.

Billing needs careful consideration

To produce an accurate interest bill when rates are published in arrears, calculations must support either a lag (aka look back) or lock out. The lag applies rates from at least a day in the past to calculate the current day's interest. A lock out uses the latest rate in projections for the final few days, then catches up on the actual final rates in the next bill.

Another, but potentially more risky option is to delay billing and payment due dates until all rates are known. And if you're compounding in arrears with a lag, you might also use an observation shift to weigh the daily rate correctly.

With so much complexity to navigate, you need a servicing solution that will:

1

Support applicable calculation methods

As recommendations continue to evolve, keep your options open with technology built to manage both simple interest and compounding in arrears methodologies, with look backs, lock outs, delayed billing or interest-weighted observation shifts.

2

Tie the new RFR attributes to integration and reporting

Seamlessly integrate and automate your RFR data attributes using APIs and incorporate them into your reporting and analytics with business intelligence tools. Get more insight into your lending performance and customers with business- focused drag-and-drop query tools and extendable business models.

3

Handle new business processes

With rates changing daily, spread adjustments being added and contracts getting shorter, cashflow will be harder to project. Loans may also need more frequent servicing and billing practices must change. Your loan system must be able to increase automation and straight-through processing, reduce errors and project cashflows based on the new RFRs.

4

Smooth your transition

Before the pandemic caused delays, most lenders were planning a gradual switch to the new rates. Now that more portfolios may need to be moved en masse, work with your tech provider to put a strategy in place and automate the transition process.

The FIS® Commercial Loan Servicing (formerly ACBS) can help you meet all four of these objectives right now with the most comprehensive support in the market for RFRs. Our powerful APIs provide the seamless integration you need to easily onboard new RFR loans, while servicing automation reduces errors and increases efficiency.

Are you ready?

LET'S SOLVE SOMETHING BIGGER

Contact us today.

www.fisglobal.com

twitter.com/fisglobal

getinfo@fisglobal.com

linkedin.com/company/fis

FIS | ADVANCING THE WAY THE WORLD PAYS, BANKS AND INVESTS™