

# Leveraged Life Insurance: Transitioning CDOR and BA Loan Rates to CORRA

## WESTWARD'S VIEWPOINT

Westward clients with leveraged life insurance plans and demand bank loans will be receiving communications from their lender about the forthcoming transition from CDOR and BA based loan interest rates to CORRA based loan interest rates.

We support the Canadian financial industry's program to replace CDOR/BA with CORRA because of the transparency of the CORRA loan rate published by the Bank of Canada on a daily basis.

Clients will see their new loan agreements incorporating language to accommodate the transition to CORRA.

In conversations with lenders, we are advised that the loan interest rate spread on CDOR/BA versus CORRA should remain the same. We are also advised that CORRA based interest will be paid in arrears rather than CDOR/BA based interest paid in advance.

This transition appears to be beneficial in that it increases the transparency of borrowing rates and may simplify loan administration.

Westward will be monitoring the development of Term CORRA rates and their adoption by the lenders and application to our clients' loans.

For more information, clients can contact their Account Manager or Wayne Stone at [waynes@westwardadvisors.com](mailto:waynes@westwardadvisors.com).



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## CDOR and BA

Demand bank loans in leveraged life insurance plans typically bear interest at rates tied to either (i) the Prime rate, (ii) the Canadian Dollar Offered Rate (CDOR), or (iii) the Bankers' Acceptance (BA) rate.

The cost of borrowing is one of the above interest rate benchmarks plus or minus a spread set by the lender.

CDOR is calculated and published by Refinitiv Benchmark Services (UK) Limited (RBSL). BA rates are based on and very close to CDOR.

RBSL will cease to publish the CDOR on June 28, 2024. Loans bearing interest at rates tied to CDOR or BA must move to an alternate interest rate formula.

The decision to cease publishing CDOR is made within the context of the global interest rate benchmark reform effort where the most widely used benchmarks are based on risk-free rates rather than bank credit rates. The cessation of CDOR will ensure that Canada's interest rate benchmarks are robust, transparent and resilient into the future.<sup>[1]</sup>



## CORRA

The replacement for CDOR is the Canadian Overnight Repo Rate Average (CORRA). CORRA represents the risk-free rate of borrowing published by the Bank of Canada on a daily basis.<sup>[2]</sup>

The banking industry is working on developing 1 and 3 month Term CORRA rates and expects to begin publishing those rates by September 30, 2023.<sup>[3]</sup>

## THE PERFORMANCE OPTIMIZER™

Westward's Performance Optimizer loan management service includes review and commentary on the terms of every new loan agreement and comparative evaluation of those loan terms against (i) the previous loan agreement, (ii) the terms offered by that lender to other Westward clients, and (iii) the terms offered by other lenders to Westward clients. Our commentary will expand to include CORRA when it appears in new loan agreements.

[1] Scotia Wealth Management client advisory, April 2023.

[2] See [www.bankofcanada.ca/rates/interest-rates/corra](http://www.bankofcanada.ca/rates/interest-rates/corra)

[3] See [www.bankofcanada.ca/2022/10/developing-term-corra-benchmark](http://www.bankofcanada.ca/2022/10/developing-term-corra-benchmark)

