VIEWPOINT 2023 DEC 4

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

WESTWARD ADVISORS

WESTWARD'S VIEWPOINT

The banking industry's transition from CDOR/BA loans to CORRA loans is in full swing and we are starting to see CORRA transitions for clients with demand loan credit agreements renewing after October 31, 2023.

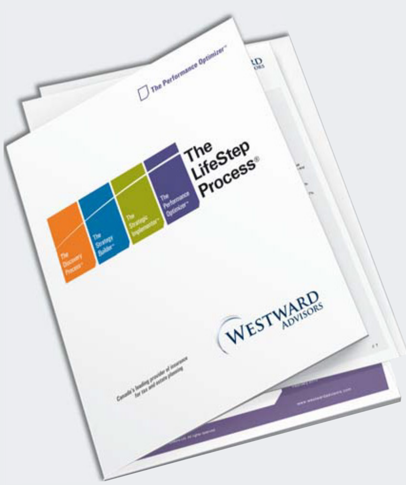
The transition to CORRA should not result in a material change to the cost of borrowing under CDOR/BA.

For individual borrowers, the transition to CORRA appears likely to convert short term rates of 30, 60, 90 and 180 days paid in advance to floating Daily CORRA rates or Prime-based rates paid monthly in arrears.

For corporate borrowers, the transition to CORRA appears likely to convert short term rates of 30, 60, 90 and 180 days paid in advance to fixed Term CORRA rates paid in arrears for terms of 30 and 90 days.

When clients receive new credit agreements replacing CDOR/BA loan facilities with CORRA, we will provide our usual commentary on the terms including comparison of the rate spread charged by the bank to the rate spread charged to other clients and by other banks.

For more information, clients can contact their Account Manager or Wayne Stone at 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 before then.

Daily CORRA

The replacement for CDOR and BA is the Canadian Overnight Repo Rate Average (CORRA). CORRA is a floating interest rate representing the risk-free rate of borrowing published daily by the Bank of Canada.[1]

As a risk-free rate, CORRA is a lower rate than CDOR/BA. The banks will have to charge a higher spread on CORRA to achieve economic neutrality for the bank and the borrower.

Interest under Daily CORRA is payable monthly in arrears.

Term CORRA

Daily CORRA rates are translated into fixed short Term CORRA rates available for 30- and 90-day terms payable at the end of the term. Term CORRA rates are published daily on the CanDeal website.[2] Term CORRA rates are currently only available to corporate borrowers.

Transition to CORRA

To transition all CDOR/BA loans to CORRA by June 28, 2024, all new and amended **loan agreements after October 31, 2023,** will replace CDOR/BA with CORRA or Prime-based rates.

CDOR/BA loans can continue until a rollover date after a new loan agreement with CORRA comes into effect.

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.

[1] See www.bankofcanada.ca/rates/interest-rates/corra
[2] See http://www.candeal.com/en/benchmarks