The LIBOR transition:

Goodbye LIBOR, hello SOFR—what this means for you.

August 2022

The LIBOR Transition Story.

- The London Interbank Offered Rate (LIBOR) has been used for decades to set lending interest rates by TD Bank and financial institutions around the globe.
- LIBOR was initially based on the actual costs of interbank unsecured lending used to fund loan transactions. Over time, however, as the number of actual interbank transactions decreased, LIBOR quotes relied more heavily on subjective judgment, exposing the rate to unacceptably high risks of manipulation.
- Accordingly, at the direction of regulators and market participants, LIBOR is being replaced with alternative reference rates (ARRs).
- On June 30, 2023, the ICE Benchmark Administration (IBA) will cease publication of all other USD LIBOR tenors (overnight, one month, three months and twelve months). This timing allows existing LIBOR contracts to mature or be modified to an alternative rate before LIBOR replacement rates are in place.

What you need to know NOW about TD's transition from LIBOR to SOFR.

How has TD been preparing for this change?

- To provide our Customers with a smooth transition from LIBOR, we established a company-wide initiative to:
  - Actively participate in industry groups to explore new benchmark rates
  - Choose the best ARRs for each TD product
  - Improve systems and other infrastructure to prepare for the switch
  - Communicate with you about upcoming changes
  - Amend LIBOR-indexed loan contract provisions to permit the replacement of LIBOR with an ARR within a designated time frame ("fallback provisions")
  - Create efficient processes for updating existing products

What is TD's approach to the transition from LIBOR to SOFR?

- Effective November 1, 2021, TD ceased offering new LIBOR products. After that date, all new deals and most renewals are priced using an ARR.
- TD selected SOFR-based rates as the primary ARRs for existing contracts priced at USD LIBOR.
- TD is closely watching the ARR markets and may offer other ARRs in addition to SOFR and Term SOFR as markets and operational capabilities evolve to support them.
- TD and other banks ceased origination of USD LIBOR indexed consumer adjustable-rate mortgages (ARMs) in 2020. Legacy ARMs will transition to a SOFR-based ARR on June 30, 2023.
- While existing LIBOR contracts can continue to be serviced through the cessation date of June 30, 2023, TD is actively working with Customers to move to ARRs in advance of the deadline.
- Your TD representative will assist you to understand options for new loan requests and the transition of existing loans to a new ARR.

Why is TD a SOFR First Bank?

- SOFR is a broad measure of the cost of borrowing cash overnight as collateralized by US Treasury securities. It is a nearly risk-free rate based on a robust market of actual transactions with a long and documented history.
- The Federal Reserve Bank of New York's Alternative Reference Rates Committee (ARRC) recommended SOFR and endorsed the Term SOFR rate as indices to replace LIBOR in loans and other financial instruments. More information at **newyorkfed.org/arrc** or **newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_Press_Release_Term_SOFR.pdf**

What is Term SOFR?

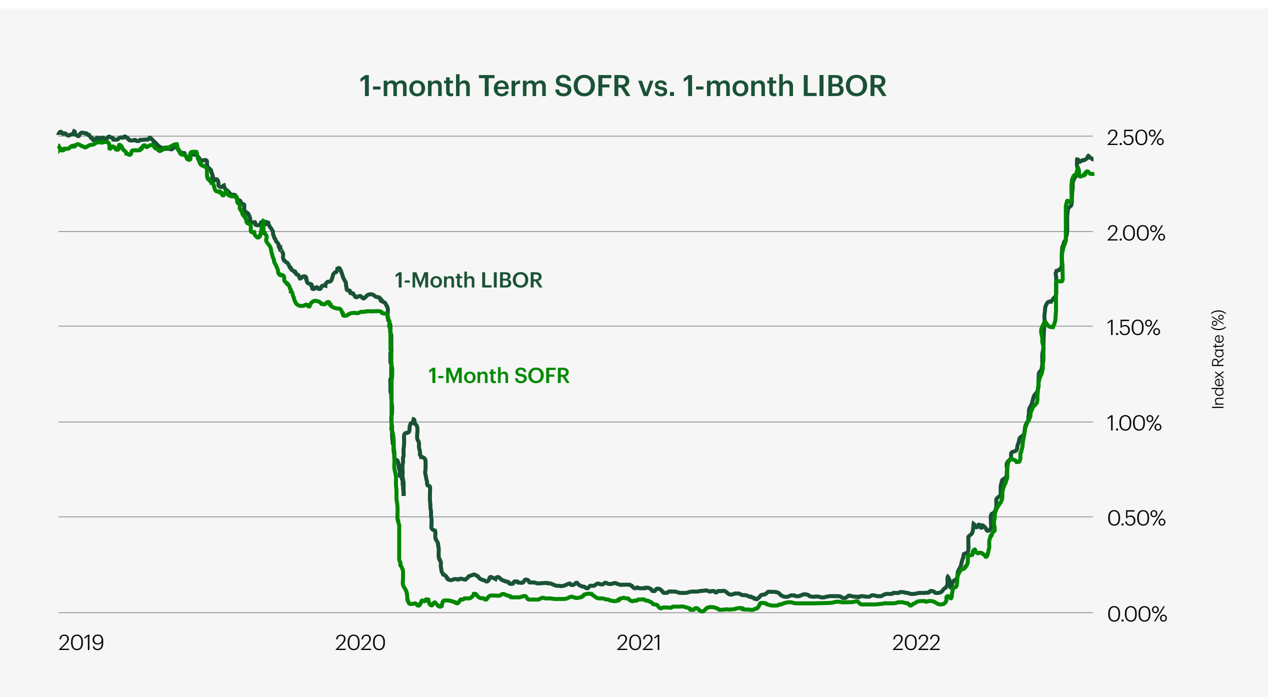
- Term SOFR represents a market-based indication of the forward-looking measurement of overnight SOFR for one, three, six and twelve month periods.
- ARRC formally recommended CME Group Benchmark Administration Limited's (CBA) Term SOFR rates for use in business loan contracts in July 2021, an approach endorsed by US federal regulators.
- CBA has published its methodology for calculation of Term SOFR at **cmegroup.com/market-data/files/cme-term-sofr-reference-rates-benchmark-methodology.pdf**

Why did ARRC select Term SOFR as the preferred rate for lending?

- Term SOFR is a nearly risk-free rate based upon trillions of dollars in daily, reliably-reported SOFR transaction volume. SOFR historically trends lower than LIBOR and historically is less volatile than LIBOR.
- **Term SOFR**—Loans can be billed on a forward basis (i.e., for each one-month billing period, borrowers and lenders know the interest rate for that upcoming period and it is set at the beginning of the period).
- **Daily SOFR**—Daily overnight SOFR resets daily, which could be a challenge to borrowers used to a forward-looking rate set for one-, three- or twelve-month periods. With a daily rate, borrowers will not know monthly interest charges in advance of billing. Daily SOFR also creates complexity in billing systems, including “observation shifts” and “look back” so that invoices can be generated in time for the borrower to meet payment due dates.

How does changing from LIBOR to SOFR affect Customers?

- Because SOFR is based on transactions secured by US Treasuries, it has historically been at a lower rate than USD LIBOR based on unsecured transactions and sensitivity to market credit stress.
- As published by ARRC and ISDA in March of 2021, the 5-year average historical difference between USD LIBOR and SOFR for one-month tenors is approximately 11.45 bps. This may change over time. The market transition from LIBOR to SOFR pricing includes appropriate spread adjustments that reflect the historical differences between these benchmarks.



References: https://www.cmegroup.com and http://www.iborrate.com

Why is TD modifying loans now if LIBOR isn't ending until June 30, 2023?

- Our Customers deserve time to understand the necessity to change their loan reference rate ahead of the mandatory end of LIBOR. For loans that are renewing or modifying, it is more efficient for both the Customer and TD to include the reference rate transition as part of any active loan amendment.
- To avoid disruptions to business, and to meet regulatory expectations that all loans will be transitioned before June 30, 2023, it is necessary to begin now to accurately address every affected Customer and loan.

What resources are available to TD Customers to better understand the transition to ARRs?

- Our website **tdbank.com/libor** provides background information. We also recommend the following industry working group sites for additional information:

  newyorkfed.org/arrc

  isda.org

  cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html

How will TD communicate with Customers throughout this transition?

- We're committed to providing you with accurate, up-to-date information as we transition from LIBOR. Reach out to your TD representative for assistance or visit **tdbank.com/libor** for ongoing updates.