EXERCISE

INTEREST IN LENDING

Background

Your client is getting ready to borrow money under a 5-year, term loan. They're closing in a week and are starting to think about the interest rate on the loan. Under the loan documents, the borrower can choose:

- A base rate plus 2.75% per annum; or
- A SOFR rate (with a 3-month interest period), plus 3.75% per annum. And SOFR will at all times be subject to a floor of 0.50%.

Your client tells you that they're planning on choosing the SOFR rate. They want to have a call with you to go over a few questions they have about the rate.

Instructions

Come prepared to discuss:

- Assuming today's applicable SOFR rate is 0.63%, what would the total interest rate on the loan be today?
- Should the client expect a lot of day-to-day fluctuation in that number?
- What does it mean that the SOFR rate has a 0.50% floor? Does that affect the margin?
- Is it ever possible to change the benchmark rate in the middle of the loan?

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