

Intro to ARC-Processing

Insert Bank Logo Here





ARC Program – Loan Operations Perspective for SOFR

- The ARC Program allows your bank to accrue income on an adjustable-rate loan, but your borrower makes fixed-rate payments.
- Your bank's loan to the borrower is an adjustable-rate loan indexed to monthly CME term SOFR. Your bank is required to obtain a license from CME to use term SOFR by filling out CME's excel order sheet- SSB will provide. Click [here](#) to contact CME Group to obtain a Category 1 license (free to your bank). Please note that CME may be initially unresponsive, so please keep a record of your correspondence with them.
- The interest rate on your loan will be carried on your core system at CME term SOFR, using a two-business day lookback, monthly reset, simple interest, plus a fixed credit spread. CME term SOFR can be referenced [here](#):
<https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html>
- This loan will contain a predefined principal amortization schedule (which ARC will supply based on pricing and terms agreed to by the bank and the borrower).



Borrowers Payments to Your Bank and to ARC:

- Your borrower will pay a fixed rate as defined in an addendum to the loan agreement called the Rate Conversion Agreement (RCA). ARC will draft the RCA for the borrower to sign.
- ARC establishes a set P&I or P plus I (as agreed by the bank and the borrower) payment due from your borrower on the same day each month. The difference between the interest payments on what the bank collects on the loan and what the borrower pays, outlined on the RCA, is netted by ARC and the bank.
- The bank and ARC will settle periodically on each borrower's payment date via a DDA at SouthState Bank, N.A. or ACH payments on each loan separately so that the bank retains the contractual adjustable rate on your loan.
- ARC will generate and share a monthly settlement statement for each loan detailing the settlement payment occurring on each payment date. The settlement between the bank and ARC will occur on payment dates.

For Your Reference, a Sample Settlement Statement has been provided in the Slides Below.



Rate Reset and Payment Notice

Today's Date

Your Bank Name

Your Bank Address

Loan Servicing

Settlement Summary							
			Period				
Deal Number	Deal Name	Agreement Date	Begin Date	End Date	# Days	Settlement Date	Due to SouthState
Your Deal #	Borrower, LLC	xx/xx/xxxx	xx/xx/xxxx	xx/xx/xxxx	30	xx/xx/xxxx	\$321.86

Your bank will remit to ARC the difference between the fixed rate paid by borrower and floating rate charged by the your bank..

Receive From Borrower			
Coupon Type	Fixed	Fixed Rate	5.000000%
Accrual Type	Actual/360	Interest Payment	\$ 8,305.73
Notional Amount	\$1,993,375.97	Principal Payment	\$ 3,471.09
Settlement Frequency	Monthly	Total P&I Payment	\$ 11,776.82

Your bank collects from borrower the same monthly dollar amount, representing borrower's fixed- rate P&I payments.

Retained by (Your Bank Name)			
Coupon Type	Float	1M SOFR	2.80624%
Accrual Type	Actual/360	Index Adjustment	1.00
Notional Amount	\$1,993,375.97	Applicable Index	2.80624%
Settlement Frequency	Monthly	Loan Spread	2.000000%
		All-in Rate	4.80624%
		Interest Payment	\$ 7,983.87
		Principal Payment	\$ 3,471.09
		Total P&I Payment	\$ 11,454.96

Your Bank retains principal and adjustable rate due

Settlement Amount	
Interest Payment Retained minus Interest Payment Received	\$ (321.86)

- A settlement statement (such as the example to the left) will be provided to your bank monthly for each loan serviced by ARC.
- This statement contains the difference in fixed rate paid by borrower and adjustable rate charged by your bank.
- This difference will be netted by ARC with the bank on a periodic basis (monthly, quarterly, semi-annually, or annually).

SouthState Bank expects payment of \$321.86 on (Payment Date).



Loan Set-Up: Your ARC Specialist can provide a detailed guide for booking ARC loans for any system, including, but not limited to:

- FIS Bankway and FIS Horizon
- Jack Henry
- Finastra
- Fiserv Premier and Fiserv Precision

Input Overview:

Your bank must service all loan payments and interactions with the borrower. Most banks prefer to set up three loans as shown below.

Loan 1:

- Service note
- Set at a fixed rate with auto draft
- Used to generate invoices and annual interest reporting

Loan 2, “Phantom”:

- A 100% sale of Loan 1, to eliminate gross-up of balance sheet

Loan 3:

- Base note, effects GL and is tracked on your bank’s books
- Accrual based on the adjustable rate of 1-month term SOFR

Best Practice for Your ARC Loans



Yield Maintenance Flag-
all ARC Loans are
subject to prepayment
provision. Adding a tickler
internally to ARC Loans
to remind is
recommended.



Congruent payment
dates for all ARC Loans
are recommended- your
bank can settle all
monthly statements on
the same day.



Before booking, and
periodically check
amortization -Schedule
provided to ensure
principal amounts are
congruent.



Auto-Debit is highly
recommended for ARC
Loans.