

Help Sheet: Debt Restructuring Calculator - Single Loan

Arlingclose Online Spreadsheets

Purpose

The Debt Restructuring Calculator spreadsheet is designed to calculate the revenue impact of repaying fixed rate long-term borrowing, possibly in conjunction with borrowing a replacement loan.

This spreadsheet links to the Borrowing workbook where details of your existing loans are saved and to the MarketData workbook in the library for current interest rates. You should enable links when opening the file.

Input

In cell B4, select the reference number of the loan you wish to model repaying. You can only select loans with unique reference numbers in the Borrowing workbook. The loan details will be displayed in cells B5:B8. If the loan has already matured, or matures within one year, you will see an error.

In cell F4, enter the date of the restructuring. This will be the early end date for the old loan and the start date for the replacement loans, if any. If you select a weekend or bank holiday the cell will turn red indicating an error.

The current PWLB early repayment rate is shown in cell F5. You can adjust this by entering a margin in cell F6 and the spreadsheet will use the sum of these in cell F7 to discount the old loan, which gives the premium payable or discount receivable in cell F8.

You may enter details of up to two replacement loans in cells L2:M8, usually one to replace the principal and a second to fund the premium. Cells L6:M6 show the current PWLB standard new loan rate. You can adjust this by entering a margin in cells L7:M7; for PWLB certainty rate loans a margin of -0.20% should be entered.

Alternatively, you may opt to charge the premium against capital receipts by selecting “Yes” in cell J8.

Where there is a mis-match in cash between and after the restructure, the spreadsheet assumes this is funded at short-term rates. These are based on the market forecasts for SONIA in column E of the table, but you can adjust these in cell I1 for short-term investments when there is a surplus of cash and cell K1 for short-term borrowing when there is a shortage of cash.

Where the replacement loan is longer dated than the old loan, you may make an assumption about how the old loan will be refinanced if it is not restructured. This works best when the old loan is a maturity loan. Select “Yes” in cell C5, enter the new maturity date in cell C6 and select the loan type in cell C7. The spreadsheet will calculate the estimated rate based on the forward gilt curve in cell C8.

Finally, any fees payable relating to the restructure, including arrangement fees for replacement loans, can be entered in cell J13.

Outputs

The impact on revenue are shown in columns F to N on row 10 downwards. These comprise:

- Interest saving on current loans - both the loan being repaid and the assumed refinancing (if selected) that will no longer be required.
- Premium or discount - amortised over the period permitted by capital finance regulations as described in cells G5:I8.
- Interest cost on new loans - if replacement loans have been selected.
- Short-term interest - accounts for any imbalance between the cash position before and after restructure - if you have replaced both the principal and premium with new loans this will be minimal.
- Modification gain or loss - where the replacement loan is with the same lender, and the present value of the cash flows before and after restructure are within 10%, the loan is said to be “modified” leading to an upfront gain or loss; there are no regulations permitting or requiring this to be amortised.
- Fees - as entered.
- Net cost or saving - the sum of the previous six columns, this is the cash cost or saving of the restructure exercise.
- Discount factor - calculated using a discount rate of 3.5% for the first 30 years and 3% thereafter.

Please speak to us before transacting any debt restructuring.

Limitations

The spreadsheet is designed for fixed rate loans. It will work for vanilla LOBO loans and assume they run for their full course, but does not show the value of embedded options. The spreadsheet does not work for variable rate loans.

The spreadsheet assumes that the loan’s effective interest rate is the same as the coupon rate. This will not be the case for a stepped loan or a previously “modified” loan.

Please note that the calculated costs and savings shown are only approximate for “modified” loans due to the limitations of excel online. We can provide actual figures upon request.

More Help

Further help sheets are available at <https://www.arlingclose.com/insights/help-sheets>.

If you have any further queries, please email the Arlingclose team at treasury@arlingclose.com.

Arlingclose Limited
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