USBBO- Leveraged Finance product

**Business Reporting**

**Analysis**

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# Introduction

The business has requested to segregate the PL reporting based on several criteria as Deal Type (Underwritten, Best efforts, Direct lending and Relationship lending), Business activity (Distribution or Hold To Collect), Roles (Agent only, Left lead, Right Lead, Participant, Fronting only, etc.), and Portfolio type (HTC and HTC&S).

Front Office team would like to segregate the revenue ideally by:

* **Distribution** Revenues.
* Revenues on the **Holds**

For that, we will segregate the analysis in the following 4 blocks:

1. Commitment Letters´: Revenues coming from the “Deal Execution” phase.
   * **Distribution** Revenues & **Holds** Revenues
2. Successful Fronting: Revenues coming from the Loans successfully allocated.
   * **Distribution** Revenues
3. Hung Deals: Revenues coming from the Loans that should be distributed but weren´t allocated on time.
   * **Distribution** Revenues
4. Hold to Collect: Revenues coming from the Loans that will remain on Santander´s portfolio.
   * **Holds** Revenues

For the subset of **Distribution** (HTCS/Term Loans), FO team would want it segregated between:

* Type of revenues:
  + Fees
  + Net Interest Income
  + OID (when applicable)
* Tags:
  + Santander Role (e.g., Left Lead, Agent, Participant, etc.)
  + Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
  + Underwriting vs Best Effort (when applicable)
  + Booking Unit & Responsible/coverage region
  + Fees categories
  + Agency Fees (at deal level)

For **Revenue on the Holds** (HTC/RCF):

* Type of revenues:
  + Fees
  + Net Interest Income
  + OID (when applicable)
* Tags:
  + Santander Role (e.g., Left Lead, Agent, Participant, etc.)
  + Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
  + Underwriting vs Best Effort (when applicable)
  + Booking Unit & Responsible/coverage region
  + Fees categories

The purpose of this document is to review the current booking process across multiple systems, with the goal to define the requirement that will allow to retrieve every PL component from the systems and consolidate the data retrieved in a single report with all the operative revenues and segregations requested by the users.

# Commitment Letters Revenues

**Note:** Common analysis and requirements for any type of Facility booked as a Commitment Letter in the One Stop Shop (1SS).

Commitment Letters (C.L) won´t generate any interest, the revenues or expenses will be through Fees.

Those are currently being settled from the Closing date onwards, however, FO requests to recognize the revenues coming from the Fees from the booking in the Commitment Letter phase.

## Definition & Analysis

AS IS:

Commitment Letters are currently booked in Loan IQ and Orfeo, both bookings being independent from each other. To analyze the fees related to Commitment Letters, the information can only be retrieved from Loan IQ, in Orfeo the fees aren´t informed.

Some Fees are informed but the current process is a tactical with lack of structure.

TO BE:

First, every Facility under a C.L must contain the following tags:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort
* Booking Unit & Responsible/coverage region
* Fees categories

Them, each Fees known during the Deal Execution phase will be booked in the C.L through the 1SS. This will allow to track the expected Revenues since the C.L is booked.

However, the final Fee amount will be the one informed in the Loan IQ Deal after the Closing, as the Loan IQ one will be the amount settled and sent to Accounting.

Besides that, the 1SS will include new concepts that were not considered in the “AS IS”.  
The Flex in the Fees will be considered in the 1SS, allowing to manage the revenues grid based on the impact that the Flex has in each Fee.

All this information will flow into BDh3, where downstream systems will be able to consume the necessary data for accounting and reporting purposes.

## Requirements for the 1SS

Even if the Fees are settled from the Closing of the deals onwards, FO requires to have the Fees registered in the C.L if it´s known in advance and recognize it once booked in the systems, even if the Settlement is in the future.

As mentioned above, every Facility booked in the 1SS prior to the Deal Booking need to have the following tags to segregate the Fees under the facility as desired:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort
* Booking Unit & Responsible/coverage region
* Agency Fees (at deal level)
* Fees categories

Besides that, Mercurio ID at Facility level must be sent to BDh3.  
The Mercurio Facility ID will be linked to the LIQ Deals too, allowing to enrich the Loan´s details from Loan IQ by crossing the data in BDh3.

e.g.,

The C.L contains the Santander Role, this will be sent to BDh3 through the 1SS, but the Term Loan or the RCF booked in Loan IQ won´t have this detail. Through the common Facility ID, the tags from the 1SS will allow to enrich the data coming from Loan IQ.

# Successful Fronting

Under HTCS Facilities there can be two outcomes, either the **Allocation is successful** or it´s not fully allocated and it will be considered a **Hung Deal**.

The revenues/expenses coming from the successful allocated deals will be classified under **Distribution Revenues**.

Those revenues and expenses will be generated during a specific period, starting with the “Deal Closing” and ending with the “Settlement”, and they would come from Fees, Interests and OID (when applicable).

Besides, FO requests to have both revenues segregated between the following components:

* Fees
* Net Interest Income
* OID (when applicable)

## Fees

### Definition & Analysis

AS IS:

Every fee under a HTCS Facility is booked in **Mercurio** and in **Loan IQ**, however, there is **no integration** between both booking process.

The current booking process is as follows: once the information is displayed in Mercurio, BO inputs the fees in the corresponding Loan IQ tabs according to the information retrieved from Mercurio and additional fees that can be notified by e-mail. To clarify, those fees are usually booked in Loan IQ when the Deal is booked if the fee is immediate, if the fee is not immediate it´s booked on the Payment Date, and some Fees may be booked when there is a variation in the agreement.

Some discrepancies may arise because additional fees are added by mail to the static information already input in Mercurio.

See the example below:

**GOLDEN ENTERTAINMENT 240M 200524 LEV US – TERM LOAN B**

|  |  |
| --- | --- |
| **Fees in Mercurio** | **Fees in Loan IQ** |
| Arrangement Fee: 250.000 | Arrangement Fee: 350.000 |
| Incentive Fee: 100.000 |
| N/A | Other Miscellaneous Fee: 20.716,48 |

Loan IQ is the key source system as it is the one feeding accounting (Equation) with the fees information that flow as account numbers. Loan IQ does not provide more information to any other downstream system.

Equation receives the fees at facility level segregated by Ongoing and Upfront, and this differentiation is key to understand the information flow from Loan IQ to Equation. Ongoing fees are daily accrued based on the balance until the deal’s maturity date whereas Upfront fees consist in a single payment in the agreed date.

Additionally, Agency fees are requested in the report. They are ongoing fees recorded in Loan IQ at deal level on the Effective Date. These fees flow correctly to downstream systems, therefore, no action is needed. The agency fees account sent from Loan IQ and used in accounting for is “1000920285840” (“AGENCY FEE”).

TO BE:

The report is expected to have the same data from the fees flowing from Loan IQ to Equation.

### Requirements for Successful Fronting Deals

The current fees flow to Accounting must be enriched since the current report lacks the desired differentiation.   
To be able to segregate correctly it´s necessary to have the following tags at Facility level in the C.L booked in the 1SS:

* Santander Role (e.g., Left Lead, Participant, etc.)
* Facility (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region

Then, in Loan IQ we have the following necessities:

* Common ID with Mercurio: Once the Facilities in Loan IQ contain the Mercurio Facility ID it´s possible to enrich the Loan´s Facilities details by crossing Loan IQ data with 1SS tags in BDh3.
* Agency Fees: Informed at deal level, and received only when Santander is Agent, therefore, classified under Distribution revenue
* Fees categories: a method to distribute the Fees under buckets needs to be defined (e.g., Time related Fees, Restructuring related Fees, Time related Fees, etc.)

## Net Interest Income

### Definition & Analysis

The Net Interest Income or Gross Margin information is calculated with the following formula:   
***NII = Interest Accrual + Financial Fees – Interest Expense (FTP)***

AS IS:

The NII can be retrieved directly from SanART, or it can be calculated retrieving the different components of the formula.

SanART may not be the best option as it requires no lack of data in the flow from Loan IQ to SanART, on the other hand, if the data is retrieved from Accounting there are less steps between the Data source (Loan IQ) and the outcome.

TO BE:

No changes are expected after the 1SS implementation, the data from Loan IQ will continue to flow as it does.

### Requirements for Successful Fronting Deals

Since the formula is quite simple it would be preferrable to calculate it with the same data source from the rest of the revenues/expenses (Fees & OID).

For that it will be necessary to distinguish the following revenues/expenses:

* Interest Accrual
* Financial Fees
* Interest Expense

Loan IQ sends the Financial Fees and the Interest Accrual, once retrieved the Interest Expense the NII can be calculated easily..

In addition to the specific requirements for NII, as mentioned before, for every C.L facility the following tags are required in the 1SS, and it needs to flow into BDh3 for the corresponding systems to consume it:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region
* Agency Fees (at deal level)

## Original Issue Discount (when applicable)

The OID corresponds to the Amount of the Discount, and it will only apply in two occasions.  
First, when Santander fronts with a discounted price, meaning that there will be a Loss reported. The second case is when Santander buys at a Discounted price, in that case the OID is considered a Revenue to be amortized through the deal´s life.

### Definition & Analysis

AS IS:

The OID is available in Loan IQ, with the Buy/Sell price and the total Amount of the facility.

Then, it flows into Accounting, when it´s an Expense the full amount is recognized at settlement.

For the moment there isn´t an Income example to analyze.

TO BE:

Since the solution will be done based on BDh3, the goal is for BDh3 to be able to calculate this field in the table “Lender Movements”.

Being more specific, the fields “Total amount” and “Price percent” are expected in the table allowing to treat the OID amounts in the necessary systems.

### Requirements for Successful Fronting Deals

OID needs to flow from Loan IQ to BDh3 table “LenderMovement”, and through the fields “TotalAmount” and “PricePercent” the Amount of Discount can then be consumed by other systems (e.g., Equation).

If Santander buys any Loan with an OID that is going to be under HTC, it will need to be accrued over the Deal´s life.  
When Santander is selling with an OID the whole amount is recognized at settlement.

In addition to the specific OID requirements, for every facility the following tags are required in the 1SS.  
Each Facility in Loan IQ must contain the Mercurio Facility ID to enrich the Loan´s Facilities details by crossing through BDh3 the data from Loan IQ Facilities and the data from C.L facilities from the 1SS with the necessary tags:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region
* Agency Fees (at deal level)

# Hung Deals

Under HTCS Facilities there can be two outcomes, either the **Allocation is successful** or it´s not fully allocated and it will be considered a **Hung Deal**.

The revenues/expenses coming from Hung deals will be classified under **Distribution Revenues**.

Those revenues and expenses will be generated during a specific period, starting with the “Deal Closing” and ending with the “Delayed Settlement”, as the allocation will take place after the initial expected date (if Santander can allocate the full amount).

The revenues/expenses would come from Fees, Interests and OID (when applicable).

Besides, FO requests to have both revenues segregated between the following components:

* Fees
* Net Interest Income
* OID (when applicable)

## Fees

### Definition & Analysis

AS IS:

Every fee under a HTCS Facility is booked in **Mercurio** and in **Loan IQ**, however, there is **no integration** between both booking process.

The current booking process is as follows: once the information is displayed in Mercurio, BO inputs the fees in the corresponding Loan IQ tabs according to the information retrieved from Mercurio and additional fees that can be notified by e-mail. To clarify, those fees are usually booked in Loan IQ when the Deal is booked if the fee is immediate, if the fee is not immediate it´s booked on the Payment Date, and some Fees may be booked when there is a variation in the agreement.

Some discrepancies may arise because additional fees are added by mail to the static information already input in Mercurio.

Loan IQ is the key source system as it is the one feeding accounting (Equation) with the fees information that flow as account numbers. Loan IQ does not provide more information to any other downstream system.

Equation receives the fees at facility level segregated by Ongoing and Upfront, and this differentiation is key to understand the information flow from Loan IQ to Equation. Ongoing fees are daily accrued based on the balance until the deal’s maturity date whereas Upfront fees consist in a single payment in the agreed date.

Additionally, Agency fees are requested in the report. They are ongoing fees recorded in Loan IQ at deal level on the Effective Date. These fees flow correctly to downstream systems, therefore, no action is needed. The agency fees account sent from Loan IQ and used in accounting for is “1000920285840” (“AGENCY FEE”).

TO BE:

The report is expected to have the same core data from the fees flowing from Loan IQ to Equation.

For Hung Deals a specific data related to the Flex protections and the impact in the Fees will be detailed.

### Requirements for Hung Deals

The current fees flow to Accounting must be enriched since the current report lacks the desired differentiation.   
To be able to segregate correctly it´s necessary to have the following tags at Facility level in the C.L booked in the 1SS:

* Santander Role (e.g., Left Lead, Participant, etc.)
* Facility (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region

Then, in Loan IQ we have the following necessities:

* Common ID with Mercurio: Once the Facilities in Loan IQ contain the Mercurio Facility ID it´s possible to enrich the Loan´s Facilities details by crossing Loan IQ data with 1SS tags in BDh3.
* Agency Fees: Informed at deal level, and received only when Santander is Agent, therefore, classified under Distribution revenue
* Fees categories: a method to distribute the Fees under buckets needs to be defined (e.g., Time related Fees, Restructuring related Fees, Time related Fees, etc.)

More requirements regarding the Flex protection will be added.

## Net Interest Income

### Definition & Analysis

The Net Interest Income or Gross Margin information is calculated with the following formula:   
***NII = Interest Accrual + Financial Fees – Interest Expense (FTP)***

AS IS:

The NII can be retrieved directly from SanART, or it can be calculated retrieving the different components of the formula.

SanART may not be the best option as it requires no lack of data in the flow from Loan IQ to SanART, on the other hand, if the data is retrieved from Accounting there are less steps between the Data source (Loan IQ) and the outcome.

TO BE:

No changes are expected after the 1SS implementation, the data from Loan IQ will continue to flow as it does.

### Requirements for Hung Deals

Since the formula is quite simple it would be preferrable to calculate it with the same data source from the rest of the revenues/expenses (Fees & OID).

For that it will be necessary to distinguish the following revenues/expenses:

* Interest Accrual
* Financial Fees
* Interest Expense

Loan IQ sends the Financial Fees and the Interest Accrual, once retrieved the Interest Expense the NII can be calculated easily..

In addition to the specific requirements for NII, as mentioned before, for every C.L facility the following tags are required in the 1SS, and it needs to flow into BDh3 for the corresponding systems to consume it:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region
* Agency Fees (at deal level)

## Original Issue Discount (when applicable)

The OID corresponds to the Amount of the Discount, and it will only apply in two occasions.  
First, when Santander fronts with a discounted price, meaning that there will be a Loss reported. The second case is when Santander buys at a Discounted price, in that case the OID is considered a Revenue to be amortized through the deal´s life.

### Definition & Analysis

AS IS:

The OID is available in Loan IQ, with the Buy/Sell price and the total Amount of the facility.

Then, it flows into Accounting, when it´s an Expense the full amount is recognized at settlement.

For the moment there isn´t an Income example to analyze.

TO BE:

Since the solution will be done based on BDh3, the goal is for BDh3 to be able to calculate this field in the table “Lender Movements”.

Being more specific, the fields “Total amount” and “Price percent” are expected in the table allowing to treat the OID amounts in the necessary systems.

### Requirements for Hung Deals

OID needs to flow from Loan IQ to BDh3 table “LenderMovement”, and through the fields “TotalAmount” and “PricePercent” the Amount of Discount can then be consumed by other systems (e.g., Equation).

If Santander buys any Loan with an OID that is going to be under HTC, it will need to be accrued over the Deal´s life.  
When Santander is selling with an OID the whole amount is recognized at settlement.

In addition to the specific OID requirements, for every facility the following tags are required in the 1SS.  
Each Facility in Loan IQ must contain the Mercurio Facility ID to enrich the Loan´s Facilities details by crossing through BDh3 the data from Loan IQ Facilities and the data from C.L facilities from the 1SS with the necessary tags:

* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable)
* Booking Unit & Responsible/coverage region
* Agency Fees (at deal level)

# Hold To Collect

The revenues/expenses coming from the RCFs Facilities will be classified **Hold to Collect Revenues**.

Those revenues and expenses will be generated during the whole life of the Loan, and they will come from the following components, that need to be segregated:

* Fees
* Net Interest Income
* OID (when applicable)

## Fees

### Definition & Analysis

AS IS:

Every fee under a HTC Facility is booked in **Mercurio** and in **Loan IQ**, however, there is **no integration** between both booking process.

The current booking process is as follows: once the information is displayed in Mercurio, BO inputs the fees in the corresponding Loan IQ tabs according to the information retrieved from Mercurio and additional fees that can be notified by e-mail. To clarify, those fees are usually booked in Loan IQ when the Deal is booked if the fee is immediate, if the fee is not immediate it´s booked on the Payment Date, and some Fees may be booked when there is a variation in the agreement.

Some discrepancies may arise because additional fees are added by mail to the static information already input in Mercurio.

See the example below:

**GOLDEN ENTERTAINMENT 240M 200524 LEV US – GOLDEN ENTERTAINMENT RCF 2024**

|  |  |
| --- | --- |
| **Fees in Mercurio** | **Fees in Loan IQ** |
| Commitment Fee: 112.500 | Commitment Fee: 112.500 |
| N/A | NY-UPN Fee: 20.125 |

Loan IQ is the key source system as it is the one feeding accounting (Equation) with the fees information that flow as account numbers. Loan IQ does not provide more information to any other downstream system.

Equation receives the fees at facility level segregated by Ongoing and Upfront, and this differentiation is key to understand the information flow from Loan IQ to Equation. Ongoing fees are daily accrued based on the balance until the deal’s maturity date whereas Upfront fees consist in a single payment in the agreed date.

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TO BE:

The report is expected to have the same data from the fees flowing from Loan IQ to Equation.

### Requirements for RCFs

The current fees flow to Accounting must be enriched since the current report lacks the desired differentiation.   
To be able to segregate correctly it´s necessary to have the following tags at Facility level in the C.L booked in the 1SS:

* Santander Role (e.g., Left Lead, Participant, etc.)
* Facility type (RCF, Term Loan A & B, DDTL and Bridge Loan)
* Underwriting vs Best Effort (when applicable) 🡪 Not applicable for RCFs
* Booking Unit & Responsible/coverage region

Then, in Loan IQ we have the following necessities:

* Common ID with Mercurio: Once the Facilities in Loan IQ contain the Mercurio Facility ID it´s possible to enrich the Loan´s Facilities details by crossing Loan IQ data with 1SS tags in BDh3.
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## Net Interest Income

### Definition & Analysis

The Net Interest Income or Gross Margin information is calculated with the following formula:   
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The NII can be retrieved directly from SanART, or it can be calculated retrieving the different components of the formula.

SanART may not be the best option as it requires no lack of data in the flow from Loan IQ to SanART, on the other hand, if the data is retrieved from Accounting there are less steps between the Data source (Loan IQ) and the outcome.

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### Requirements for RCFs

Since the formula is quite simple it would be preferrable to calculate it with the same data source from the rest of the revenues/expenses (Fees & OID).

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* Santander Role (e.g., Left Lead, Agent, Participant, etc.)
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* Underwriting vs Best Effort 🡪 Not applicable for RCFs
* Booking Unit & Responsible/coverage region

## Original Issue Discount (when applicable)

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First, when Santander fronts with a discounted price, meaning that there will be a Loss reported. The second case is when Santander buys at a Discounted price, in that case the OID is considered a Revenue to be amortized through the deal´s life.

### Definition & Analysis

AS IS:

The OID is available in Loan IQ, with the Buy/Sell price and the total Amount of the facility.

Then, it flows into Accounting, when it´s an Expense the full amount is recognized at settlement.

For the moment there isn´t an Income example to analyze.

TO BE:

Since the solution will be done based on BDh3, the goal is for BDh3 to be able to calculate this field in the table “Lender Movements”.

Being more specific, the fields “Total amount” and “Price percent” are expected in the table allowing to treat the OID amounts in the necessary systems.

### Requirements for RCFs

OID needs to flow from Loan IQ to BDh3 table “LenderMovement”, and through the fields “TotalAmount” and “PricePercent” the Amount of Discount can then be consumed by other systems (e.g., Equation).

If Santander buys any Loan with an OID that is going to be under HTC, it will need to be accrued over the Deal´s life.  
When Santander is selling with an OID the whole amount is recognized at settlement.

In addition to the specific OID requirements, for every facility the following tags are required in the 1SS.  
Each Facility in Loan IQ must contain the Mercurio Facility ID to enrich the Loan´s Facilities details by crossing through BDh3 the data from Loan IQ Facilities and the data from C.L facilities from the 1SS with the necessary tags:

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* Booking Unit & Responsible/coverage region