

Commercial Lending Update

MAY 2019

DEVELOPMENTS IN ANTICIPATION OF LIBOR'S END

As reported last month, the London Interbank Offered Rate (LIBOR) will not be calculated after December 2021 (**see April 2019 Article**). Financial institutions need to prepare for LIBOR's termination and transition to a replacement index. The Alternative Reference Rates Committee (ARRC) (formed by the FRB in cooperation with the Department of the Treasury and the Commodity Futures Trading Commission) selected the Secured Overnight Financing Rate (SOFR) as a replacement index.

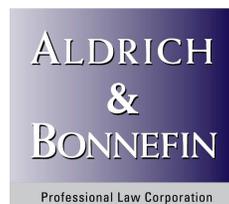
There are other reference rates being developed as well. In its Winter 2018 issue of "Supervisory Insights," the FDIC reported that the American Financial Exchange's (AFX) alternative rate is Ameribor. The Ameribor reflects the borrowing costs of more than 100 small and mid-sized banks using a 30-day rolling average of the weighted average daily volume in the AFX overnight unsecured market. For more information on Ameribor, refer to the FDIC's Winter 2018 publication.

At a recent Financial Stability Board Roundtable event, FRB Vice Chairman for Supervision, Randal Quarles, reminded financial institutions that they must conduct as much due diligence on their

alternative reference rates as they conduct on their borrowers' creditworthiness. Quarles informed financial institutions that ARRC completed the required SOFR due diligence. In fact, in addition to conducting SOFR due diligence, ARRC has been drafting contractual fallback language. Last month, ARRC issued recommended fallback language for floating rate notes and syndicated business loans that reference LIBOR. In addition to the fallback contract language, ARRC posted a transition plan, both of which are available on its website at <https://www.newyorkfed.org/arrc/index.html>. The "Paced Transaction Plan" includes specific steps and timelines designed to encourage adoption of SOFR.

Drafting contractual fallback language and planning for the transition from LIBOR to a replacement index may not be as easy as it sounds. Some parties think SOFR is more volatile than LIBOR and desire additional protective language in the contract. Ameribor is also an unknown and untested index rate.

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