Financial Institution Letter

Interagency Statement

LIBOR Transition for Loans

November 6, 2020 | FIL-104-2020

Summary:

The Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (collectively, the agencies) have issued a joint statement reiterating that a bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs. However, the bank should include fallback language in its lending contracts that provides for use of a robust fallback rate if the initial reference rate is discontinued.

A copy of the interagency statement can be found on the FDIC's website.

Statement of Applicability to Institutions: This Financial Institution Letter (FIL) applies to all FDIC-supervised financial institutions.

Highlights:

- The agencies are not endorsing a specific replacement rate for LIBOR for loans.
- Institutions should have risk management processes in place to identify and mitigate their LIBOR transition risks that are commensurate with the size and complexity of their exposures.
- It is appropriate for banks to select suitable replacement rates for LIBOR that are appropriate given the needs of the bank as well as its customers.
- The Alternative Reference Rates Committee recommended the Secured Overnight Financing Rate (SOFR) as its preferred alternative for both cash and derivative transactions. The use of SOFR, however, is voluntary.

- Examiners will not criticize banks solely for using a reference rate other than the SOFR for loans.

- The agencies encourage banks to determine appropriate reference rates for lending activities and begin transitioning loans away from LIBOR without delay.

Attachment:

Interagency Statement on LIBOR

Distribution:

FDIC-Supervised Institutions

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Chief Executive Officer
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