Three Steps Forward In The LIBOR-SOFR Transition

hedging lending SOFR

Summary: The LIBOR-SOFR transition is still happening. We have three steps to help you move forward.

Time-off requests have plunged 25% as vacation plans were dashed and uncertainty remains around the coronavirus. Last year in July, there were just over 70.3K vacation requests from employees at 3,000 companies. This year that number fell to around 52.7K.

Not only has the pandemic pulled many away from their vacations, but it has also pulled financial institutions away from their post-LIBOR plans. Many bankers may hope or expect that regulators will still push the LIBOR deadline.

Yet, regulators on both sides of the pond have been clear that their December 2021 deadline to transition away from LIBOR is a firm one. So, there is no time to waste. As a community financial institution (CFI), you should consider taking these three steps sooner rather than later to prepare for the coming change.

1. **Organize your transition team.** You'll need to task key employees to manage the transition process and communicate to all stakeholders (customers, management, and shareholders). You may need more specialized staff as well. If you happen to be short on expertise in contract management, technology, legal issues, and analytics, you may want to start filling those gaps now, either internally or by outsourcing.
2. **Finalize your systems and technology infrastructure.** Your loan origination, documentation, servicing, collateral monitoring, and loan accounting systems will all have to be compliant with the new index standard. Whether you will use a vendor's technology to help transition or buy it yourself, your institution will need to ensure that these technologies can successfully dovetail with the ones within your institution. There could be glitches. So, plan for sufficient time to adopt, test, troubleshoot, and fix problems as they emerge.
3. **Move into the execution phase of your plan.** No matter what curve balls the year 2020 finds to throw at us, you must move forward. Determine the exposures that concern you most and develop plans for mitigating risk in those areas.

The devil is in the details. You will need to find out how your operating systems will handle the new interest rates benchmark. Reconciling data and rebalancing portfolios may also need to happen. If you offer new products, consider using the new benchmark where it's feasible to do so. That may take you longer to set up initially, but you will have fewer products to transition later on.

Identifying and budgeting for the transition costs and remediating legacy contracts also need to be done. Then, as the timeline gets closer, you will need to schedule regular assessments and checkpoints so that everything is buttoned up and complete by the time December 2021 rolls around.

Along the way, it will be important to keep the CEO and management team up-to-date on risk exposures and progress toward full transition. CFIs need to understand their financial and operational LIBOR exposures across systems, models, and contracts, ideally shrinking those exposures before the transition in December 2021.