# Four Critical Reminders To Transition From LIBOR To SOFR

BLP lending SOFR

**Summary:** Time is ticking on the transition from LIBOR to SOFR and it is important to keep moving forward. Regulators have advised that using LIBOR for new contracts after 2021 would create safety and soundness risks. Four important reminders allow you to mitigate these risks and prepare for LIBOR's discontinuation: assess your LIBOR cessation risk, create a plan, devise a solid timeline, and stay on track.

Levi Hutchins was the first one to invent an alarm clock in the US — in Concord, NH in 1787. Believe it or not, it wasn't patented but it only had one alarm, at 4 a.m. to wake up Levi for work. Similarly, the alarm is ringing this year for the LIBOR to SOFR transition.

Time is ticking away with LIBOR's discontinuation, and regulators are urging financial institutions to act now to ensure a smooth transition. While we have been reporting on this since the announcement of LIBOR's cessation was made, it is increasingly important to get preparations in order.

As bankers know, LIBOR has been the most widely used benchmark for floating rate transactions. So, community financial institutions (CFIs) will need to be diligent in uncovering all areas of exposure. Although the derivatives markets account for an estimated 95% of the total exposure volume, USD LIBOR is also the reference rate in several trillion dollars of corporate loans, floating-rate mortgages, floating-rate notes, and securitized products. Specific to CFIs, LIBOR may be used in some loan products, as well as tied to interest-rate hedges.

LIBOR has already been discontinued in some global markets, while the US extended its end date to mid-2023, due to disruption from COVID-19. Many financial institutions continue to take a wait-and-see approach and have delayed starting on the transition. Some bankers may think they still have plenty of time to address the issue or that there will be more guidance coming from government agencies on the transition. However, it is prudent to act sooner rather than later. Furthermore, regulators have emphasized that entering into new LIBOR exposures after 2021 would create safety and soundness risks and they would examine institution practices accordingly.

As we move closer to the sunset date for LIBOR, the below four reminders become more critical to get you where you need to go for the smooth transition from LIBOR to SOFR.

**Reminder 1: Assess your LIBOR cessation exposure risk.** Management should consider all applicable risks, such as operational, legal, compliance, strategic, and consumer risks, when conducting LIBOR cessation preparedness assessments. While we have noted this in previous articles, it is the key to proper transitioning. To assist with that effort the OCC has introduced a Self-Assessment Tool for Banks. This tool can be used to analyze:

- The appropriateness of a LIBOR transition plan
- Management's execution of the transition plan

- Related oversight and reporting

**Reminder 2: Create a tailored plan.** This needs to address the specific risks and exposure. Some common steps in a preparedness plan include modifying contracts to include “fallback” language, addressing operational risks, and communicating with affected customers and third parties.

**Reminder 3: Devise a solid timeline for transition.** The Federal Reserve continues to encourage financial institutions to stop writing contracts using LIBOR by the end of 2021. After that, the one-week and two-month LIBOR rates will no longer be published. Also, agencies have issued recommendations that LIBOR assessments and cessation preparedness plans should be at near completion with appropriate management oversight and reporting before the end of 2021.

**Reminder 4: Staying on track.** Once the assessment, plan, and timeline have been done, it is important to review these regularly. Management should assess whether the progress with preparedness is sufficient for meeting transition deadlines and adjust as needed.

We know how important it is to stay on track since we are preparing for the transition from LIBOR to SOFR as well. Feel free to reach out to us for any additional information.

## READY FOR SOFR?

Financial institutions need to be prepared for the transition from LIBOR to SOFR. We make it easy by supporting LIBOR, SOFR, and fed funds. Learn more in our SOFR Resource Center.

## ECONOMY & RATES

Rates As Of: 04/22/2021 05:26PM (GMT-0700)

| Treasury | Yields | MTD Chg | YTD Chg |
|---|---|---|---|
| 3M | 0.03 | 0.00 | -0.06 |
| 6M | 0.04 | -0.01 | -0.05 |
| 1Y | 0.06 | 0.00 | -0.05 |
| 2Y | 0.16 | 0.00 | 0.04 |
| 5Y | 0.81 | -0.13 | 0.45 |
| 10Y | 1.56 | -0.19 | 0.64 |
| 30Y | 2.23 | -0.18 | 0.59 |

| FF Market | FF Disc | IORB |
|---|---|---|
| 0.07 | 0.25 | 0.10 |
| **SOFR** | **Prime** | **OBFR** |
| 0.01 | 3.25 | 0.06 |