

---

**Board of Governors of the Federal Reserve System  
Federal Deposit Insurance Corporation  
Office of the Comptroller of the Currency**

---

**Statement on Reference Rates for Loans**

**November 6, 2020**

The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing this statement to reiterate that they are not endorsing a specific replacement rate for LIBOR for loans. A bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs.<sup>1</sup> 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.

**Background and Discussion**

As discussed in the recent FFIEC “Joint Statement on Managing the LIBOR Transition,”<sup>2</sup> new contracts should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR’s discontinuation. The Alternative Reference Rates Committee (ARRC), a group of private-market participants convened to help ensure a successful transition from LIBOR, recommended the Secured Overnight Financing Rate (SOFR) as its preferred alternative for both cash and derivative transactions.<sup>3</sup> The use of SOFR is voluntary.<sup>4</sup>

The agencies recognize that banks’ funding models differ and that in structuring their lending activities it is appropriate for banks to select suitable replacement rates for LIBOR that are most appropriate given their specific circumstances. This may include using credit-sensitive alternatives to LIBOR. Banks should assess the appropriateness of alternative reference rates in light of their funding costs and their customers’ needs. Additionally, banks should include fallback language that provides for the use of a robust fallback rate if the initial reference rate is

---

<sup>1</sup> For purposes of this guidance, the term “bank” includes depository institutions under the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(1)), U.S. branches and agencies of foreign banks, Edge and agreement corporations, bank holding companies, and savings and loan holding companies.

<sup>2</sup> <https://www.ffiec.gov/press/PDF/FFIEC%20Statement%20on%20Managing%20the%20LIBOR%20Transition.pdf>.

<sup>3</sup> SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Federal Reserve Bank of New York publishes SOFR on its website each day at approximately 8:00 a.m. eastern time.

<sup>4</sup> Some banks have noted that SOFR is a near-risk-free rate and does not reflect banks’ underlying funding costs. These banks have advocated for the development of a credit-sensitive rate or a credit-sensitive spread that could be added to SOFR to better reflect banks’ funding costs. The official sector recently held a series of workshops with banks and borrowers to discuss potential credit-sensitive alternatives to the use of SOFR for loan products. See <https://www.newyorkfed.org/newsevents/events/markets/2020/0225-2020>.

discontinued. Fallback language can help protect banks and their customers from disruptions in the availability of reference rates.

All 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. Examiners will not criticize banks solely for using a reference rate, including a credit-sensitive rate, other than SOFR for loans.

### **Prompt action encouraged**

The agencies encourage banks to determine appropriate reference rates for lending activities and begin transitioning loans away from LIBOR without delay. The agencies also encourage banks to accelerate outreach to lending customers to ensure that they are aware of, and prepared for, the transition from LIBOR. Finally, the agencies encourage banks to consider any technical changes that might be required for internal systems to accommodate new reference rates or fallback rates.