MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

PATRICK McHENRY, NC
RANKING MEMBER

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The Honorable Randal Quarles
Vice Chair for Supervision
Federal Reserve Board of Governors
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Vice Chairman Quarles:

Thank you for your May 16th testimony before the Committee on Financial Services. During that hearing, I expressed concern over the transition from the London Interbank Offered Rate (LIBOR) to an alternative financing rate, most likely the Secured Overnight Financing Rate (SOFR). In particular, I am concerned that not enough has been done to facilitate a smooth transition, including educating stakeholders on the replacement options.

Subsequent to the hearing, you made comments to the Alternative Reference Rate Committee (ARRC) Roundtable regarding your desire to see the banking sector migrate away from LIBOR. You encouraged institutions to "simply to stop using LIBOR," and conveyed the Federal Reserve's intent to intensify its supervisory expectations of financial institutions in relation to this transition.

As you know, LIBOR is the underlying reference rate for approximately $200 trillion in financial contracts worldwide. Banks, credit unions, and other financial firms will need to transition existing and future contracts to a new rate. I recognize and appreciate the fact that futures and swaps markets have begun to transition to SOFR, which is vital for the creation of a developed term structure. However, I remain concerned by the implications this transition will have on millions of borrowers and the resulting disruption that could reverberate throughout financial markets. Legacy contracts simply do not contemplate the end of LIBOR. Further, non-ARRC members, specifically those regional, mid-size, and community lenders, are unable to influence the development of this alternative financing rate; regulatory expectations should take that into consideration.

To that end, I respectfully request that the Federal Reserve under your supervision work to ensure that financial institutions have appropriate input and guidance into the transition. I also ask that you provide an estimated number of borrowers that would be required to renegotiate loan terms and explore the legal issues that could arise between lenders and borrowers as loans are renegotiated. I also believe it is prudent for the Federal Reserve to conduct an analysis of the disruption this transition may cause for both borrowers and financial firms, including identification of any ways in which SOFR may behave differently than LIBOR in an economic downturn.

The migration from LIBOR is a significant undertaking for financial firms and will impact both commercial and retail clients. It is my hope we can work together to ensure as smooth a transition as possible. I look forward to your response.

Sincerely,

Patrick T. McHenry

Patrick McHenry
Ranking Member