LIFE AFTER LIBOR: WHAT TO EXPECT

What the anticipated replacement of LIBOR as a benchmark interest rate index means for you, your business and your banking relationship.

Regulators in the U.K. have announced that publication of the London Interbank Offered Rate, known as LIBOR, is not guaranteed after 2021. Banks all over the world currently use LIBOR as a benchmark for calculating interest rates on a wide variety of products. As a result, banks will be looking to work with customers to make changes to any of their loans and other banking products that currently rely on LIBOR before the phaseout takes place.

Understanding how LIBOR works and why it's being phased out will help you better prepare for any changes necessary to accommodate LIBOR's replacement.

What is LIBOR and why is it important?

LIBOR is an interest rate average calculated and published under the authority of a U.K. regulatory agency based on daily estimates by a select group of global banks (not M&T) of what it costs those banks to borrow money from one another. Banks worldwide (including M&T) use LIBOR as a pricing index for the products they offer to customers. Currently, there are about $200 trillion worth of loans, notes, bonds and derivatives with contract rates tied to the U.S. dollar LIBOR interest rate. These products range from many common types of loans, including commercial loans and adjustable rate mortgages, to more complex financial instruments like interest rate swaps.

Why is LIBOR going away?

LIBOR relies on a panel of global banks to provide estimates of the interest rate at which they would be able to fund themselves by borrowing unsecured from other banks. They rely on estimates because the number of actual interbank loans has decreased significantly since the benchmark's establishment in 1969. In fact, the Federal Reserve estimates that LIBOR may currently be based on an average of fewer than 10 transactions per day. As a result, it's difficult to judge how accurately LIBOR actually reflects the conditions in the short-term lending market that it's supposed to represent.

What will replace LIBOR?

In 2014, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (ARRC), a group of private-market participants charged with identifying an alternative interest rate benchmark that could address LIBOR's shortcomings and serve as an eventual replacement.

In 2017, the ARRC recommended the Secured Overnight Financing Rate (SOFR) as the best metric to replace LIBOR.

SOFR is derived from the actual cost of transactions in short-term loans backed by U.S. Treasury bonds and addresses two of LIBOR's shortcomings:

- First, SOFR is calculated based on real transaction data, rather than estimates, eliminating subjectivity.
- Second, the short-term loans used in the SOFR calculation represent one of the most common transaction types currently in use, accounting for roughly $1 trillion per day of short-term borrowing.

What happens next?

The U.K.'s Financial Conduct Authority (FCA) has confirmed that the panel of banks currently involved in submitting estimates to facilitate calculating LIBOR have agreed to continue to support the benchmark through 2021. That decision provides some comfort that LIBOR will remain sustainable long enough to allow for a smooth transition to SOFR.

Nevertheless, the transition will require changes to loans and other banking products that use LIBOR to determine the applicable interest rates.

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How we're preparing.

M&T Bank's planning for the transition is already well underway. We've undertaken three major efforts as part of our proactive approach to preparing for the LIBOR phaseout.

1. We've created governance and working committees to address the transition at various levels throughout the bank and across all of our business lines.

2. We've identified critical areas where we know changes will be required. Affected areas include product pricing, product documentation and the technology we use to administer and deliver products.

3. We've created a communications plan to ensure our customers and employees receive the information they need.

You can expect to hear more from us in the near future as the details of the transition become firmer.

TO LEARN MORE:

PLEASE CONTACT YOUR RELATIONSHIP MANAGER FOR MORE INFORMATION.

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