

Preparing for the End of LIBOR

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The U.K. Financial Conduct Authority has stated it intends to phase out the London Interbank Offered Rate (LIBOR) by the end of 2021. LIBOR is used regularly as an interest rate index in variable rate loans, and is the benchmark rate used in interest rate swap transactions. Although there is currently an effort underway in the United States and United Kingdom to identify a successor to LIBOR, it likely will be uncertain for some time what will replace LIBOR as the benchmark for these types of lending transactions. Prior to its end, a replacement index likely will be determined.

With the [end of LIBOR in sight](#) and uncertainty regarding its replacement, lenders need to consider alternate language in their documents that might have seemed unlikely to ever apply. Since 2021 is less than five years away, promissory notes being signed with terms of five years or longer will be in effect when LIBOR expires. So what does the end of LIBOR mean for lenders in documenting commercial loans?

First, if LIBOR is used currently as the interest rate index, the loan documents should contemplate what occurs after LIBOR is no longer available. Lenders may wish to amend certain loan documents now if there is no language currently in place.

Second, new documents should allow the lender to select a substitute index. The lender should insist on broad discretion in selecting a replacement index since it will not be clear for some time what replacement benchmark rate will be used as LIBOR is phased out.

It is possible that existing documents which use LIBOR as an index will need to be modified at some point if these terms are not in the documents to allow the lender to select a replacement index when LIBOR expires. While 2021 seems like a long way away now, lenders may want to start preparations as soon as possible for how to handle the imminent end of LIBOR.

The attorneys in [Barley Snyder's Finance & Creditors' Rights Practice Group](#) will be keeping a very close eye on the developments for a LIBOR replacement and will update clients throughout the process. Anyone with a question now [can contact me](#) or any of the attorneys in the group.

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