

# LIBOR Transition Frequently Asked Questions

*This information is intended to educate Texas Capital Bank clients on the anticipated transition from LIBOR to an alternative benchmark interest rate. This will impact ALL loans/leases/contracts/swaps with LIBOR references.*

## What is LIBOR?

London InterBank Offered Rate – a benchmark interest rate set in London each business day for multiple currencies.

## Why is LIBOR going away?

Due to confirmed manipulations, and concerns about the breadth and depth of the market behind LIBOR (the lack of which has resulted in LIBOR being sustained by “expert judgment” on the part of the panel banks), consensus is that there needs to be a more viable benchmark rate supported by active underlying markets. The UK Financial Conduct Authority announced that, as of the end of 2021, it will no longer regulate LIBOR or require panel banks to report LIBOR transactions. As a result, it is expected that LIBOR will no longer be a common benchmark rate for financial transactions at that time, or even well before the end of 2021.

## What will replace LIBOR?

In the U.S., the Alternative Reference Rate Committee (ARRC) – a group of private-market participants, including banks, dealers, the New York Federal Reserve, and other regulatory groups – has been tasked with finding a viable replacement for LIBOR. The ARRC has recommended that the Secured Overnight Financing Rate (SOFR) replace LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. More information is available at [newyorkfed.org/arrc/index.html](https://newyorkfed.org/arrc/index.html).

## How fast will the transition to a new rate happen?

Although panel banks have agreed to continue providing LIBOR quotations through 2021, it is uncertain when exactly LIBOR will no longer be a viable benchmark rate. In any event, the transition to a new rate will be a massive undertaking, and we must prepare for this change well in advance of 2021.

## What is Texas Capital Bank doing to prepare for this transition?

A LIBOR Transition Working Group, led by Mark Frears, EVP Funds Management, has been established, and is composed of participants from all areas of the bank impacted by this transition. All potential risks are being evaluated and plans are being made to address them.

## Why are these changes important to Texas Capital Bank and its clients?

These changes are important to ensure there is no confusion as to the process for determining the rate used in any contracts between Texas Capital Bank and other parties, and so that funding and advances can be made in an orderly manner.

## As SOFR is based on an overnight market, how will the bank get term rates to replace LIBOR?

This is still to be determined. Advisors are evaluating a compounding rate and/or a historical spread over overnight rates. As futures markets are developed for SOFR, this will help define a term structure.

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## **How will SOFR compare to LIBOR? Will it be more expensive for clients to borrow?**

This depends on how term SOFR compares to LIBOR, as credit spreads may have to adjust.

## **What will change in loan documentation?**

Currently Texas Capital is adding “fallback language” to all new and renewing loan documents to establish an alternate index rate of interest when LIBOR is no longer a viable reference rate. All other existing loan documents that mature in 2021 and beyond will need to be amended with this language. This will ensure normal functioning of interest payments, even in the face of the uncertainty of the SOFR term market.

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