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FUND FINANCE FRIDAY

LIBOR Transition Update: SOFR Spotted in the Wild

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We have been talking about the LIBOR transition a lot lately, whether here in *FFF,* amending deals to contemplate the benchmark transition or working with our clients to determine the best way to address the move away from LIBOR in their credit documents.

As you may recall, the Alternative Reference Rates Committee (the "ARRC"), a group of private-market participants convened by the U.S. Federal Reserve and the New York Fed to help ensure a successful transition to a new reference rate, recommended a move to the Secured Overnight Financing Rate ("SOFR"). The ARRC has also recommended that parties stop originating LIBOR-based loans by the end of June 2021. Giving parties a bit more time, U.S. banking regulators have advised that lenders should stop originating USD LIBOR loans at the end of 2021. Nonetheless, the transition has been slow, and it seems the market has taken some comfort in the fact that one-month, three-month, and six-month LIBOR are all expected to be around until the end of June 2023.

So the end of June 2021 has come and gone, and both here in the fund finance space and in the broader loan market, lenders continue to originate LIBOR-based loans. These agreements, in accordance with ARRC recommendations, do tend to include fallback language indicating which benchmark the parties would look to when LIBOR ceases to be available. In general, this fallback language contemplates a SOFR-based rate as the replacement benchmark rate.

As we crack into the second half of 2021, this may all be changing. Just over a week ago, the first U.S.-based broadly syndicated multi-billion dollar deal tied directly to SOFR was announced. Ford Motor Company plans to refinance all of its credit facilities, and it plans to use SOFR as the benchmark. The credit facilities in question come to an aggregate amount of about $15.4 billion. While there have been a number of bilateral SOFR-based loans, this will be the first loan of this caliber to come out of the gate tied to SOFR.

The LSTA has indicated that this may indeed be the beginning of a trend. In commenting on the Ford deal announcement, LSTA said that this development was not surprising and that we may see many more broadly syndicated loans that are not based on LIBOR still to come this year.

The bottom line: SOFR is really here, and it may not be *too* much longer before we start seeing fund finance deals pegged to SOFR.