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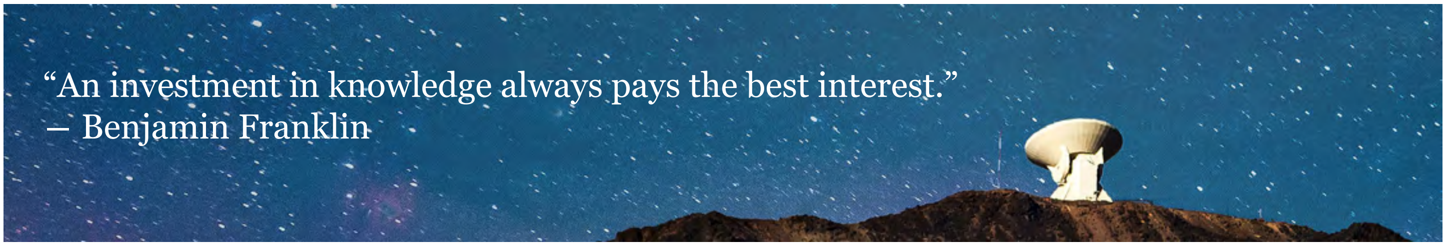
rma®
THE RISK MANAGEMENT ASSOCIATION
Long Island Chapter



A Message from Our RMA-LI Scholarship Committee

The LI Chapter of the RMA will continue to build on our legacy of service, networking and education of Commercial Bankers! Through our robust programs with generous sponsors and our members' active participation, coupled with our Board's prudent fiscal management, we are proud to announce that we are continuing our long tradition of offering scholarships to current and prospective Commercial Bankers.

For many years the LI Chapter of the RMA has supported undergraduate, graduate and post-graduate students that are seeking to further their education and provide a meaningful contribution to the Banking Industry in our region. Our past recipients have included several members of the RMA that are already thriving in our Commercial Banking community. Last year we were able to grant four scholarships to very deserving candidates: three full-time undergraduate students and one full-time Banker pursuing a Master's degree at night.

All Bankers and students interested in pursuing their education and career in the area of banking, commercial lending or credit risk management are eligible! Applicants are required to be enrolled at an accredited college, pursuing a pertinent degree program. That includes postgraduate degree programs as well. Our application process is simple and we plan on notifying the recipients before our May 2020 event.

Every year our Education Committee is so impressed by the pool of applicants that deciding the "winners" is an increasingly daunting task. That's a strong indicator of the amazing talent level that our industry attracts and the bright prospects for our future! Given the formidable competition, we welcome and encourage past applicants to re-apply.

Continued...

RMA Scholarships

"If you are not reaching back to help anyone,
then you're not building a legacy." **-Germany Kent**

James T. McCarthy Scholarship - $2,500
Dr. Pearl Kamer Scholarship - $2,500
Patrick M. Demery Bankers' Lifetime Achievement Award - $1,500

Application deadline: March 31, 2020

Eligibility:

Bankers and students interested in pursuing their education and career in the area of banking, comercial lending or credit risk management.

You must be enrolled at an accredited college, pursuing a pertinent degree program.

Application package must include the following:

- College transcript and evidence of current enrollment at an accredited college
- Essay from applicant stating:
  - Why you have chosen or are interested in a career in banking
  - Your career goals and how this scholarship will help you meet your goals
- Employment history and current job description, if applicable
- Extracurricular activities, community service
- List of leadership positions, honors and awards
- Letter of recommendation from your current employer or professor

Note: Incomplete application packages will be disqualified.

Applications will be reviewed by the
Scholarship Committee of the
Long Island Chapter of Risk Management Association.

Forward questions or your completed application package to:

Bonnie Dougherty, Senior Vice President
Valley National Bank, 2 Jericho Plaza, Jericho, New York 11753
BDougherty@valley.com

Join. Engage. Lead

RMA Long Island Chapter

February 7, 2020
8:00am – 10:00am

2020 Outlook on Economies and Markets

Radisson Hotel
110 Vanderbilt Motor Parkway
Smithtown NY 11788

Speaker
Albert Brenner,
Director of Asset Allocation Strategy
People's United Advisors

RMA- Young Professionals

February 12th, 2020
8am – 10am

Employee Stock Ownership Plans: Varying Perspectives
Chase Bank
395 North Service Road (lower level)
Melville, N.Y.

Speakers
Ken Hoffmann, Certilman Balin Adler & Hyman LLP
Robert Grote, Grassi & Co.
Marc Einerman, City National Bank

Time is Running Out on the LIBOR Benchmark

Brett P. Garver

Moritt Hock & Hamroff LLP

LIBOR (or the London Inter-bank Offered Rate), the most widely utilized reference rate for financial transactions in the world, will cease to be quoted at the end of 2021. A mind-boggling $200 trillion in LIBOR-based financing contracts were outstanding in 2018. Although the impending demise of LIBOR has been predicted for many years following the well-documented LIBOR price-fixing scandal that shook the banking industry, the reality of LIBOR's demise has gone from a distant theoretical concept to a present and pressing issue in all areas of the finance industry.

The focus on the end of LIBOR has shifted beyond trading desks and bank underwriting departments to middle market and even smaller borrowers. As negotiations move forward on new financing transactions (and extensions and amendments), borrowers who likely never read, and counsel who frequently did not focus on, the seemingly abstractand often impenetrable language relating to LIBOR alternatives have now begun asking specific questions about how, when, and what alternative rate will be imposed. Historically, the LIBOR backup language focused on short term market disruptions rather than permanent suspension and accordingly borrowers largely ignored the language. To the extent a borrower did review the language, loan officers were often open to softening the backup language. Frequently, existing LIBOR-priced loans provide for a fallback rate in the absence of a readily available LIBOR quote. Rarely, if ever, are such fallback rates equivalent or close to LIBOR. The fallback rate often falls back on a base rate in the loan instrument (such as the Prime Rate). In some cases (especially those transactions that did not contemplate a base rate option), the fallback rate is as ambiguous as a "comparable rate of interest selected by the Lender in its discretion." Continued...

Since the fallback rate is almost always higher than the applicable LIBOR rate and margin, many savvy borrowers at least negotiated for a penalty-free prepayment right on imposition of the new rate. In any event, the alternate rate imposition is likely to force the borrower and lender back to the negotiating table to agree on a new rate. Since there was seemingly little risk of the language coming into play or having long term implications there was little risk for either side proceeding in this manner. While borrowers and lenders in existing deals are stuck with this dilemma on long term deals already in place (absent an event otherwise bringing them back to the table) the story is different on new deals.

In anticipation of the loss of LIBOR as a benchmark rate, the U.S. Alternative Reference Rates Committee (ARRC) was established by the Federal Reserve Board and New York Federal Reserve Bank in an effort to ease the transition and establish a framework moving forward. ARRC has selected SOFR (the Secured Overnight Financing Rate) as its recommended reference rate for dollar-based lending transactions. Unfortunately SOFR is not a perfect analogue for LIBOR. Unlike LIBOR, SOFR is a risk-free rate because it is based exclusively on the rate at which a financial institution can borrow funds in a transaction fully secured by United States Treasury securities. SOFR is also subject to greater volatility and has historically been prone to spikes at the end of each fiscal quarter and year, when institutional borrowing tends to increase. The differences between LIBOR and SOFR will present significant challenges moving forward.

At this stage however, as important as the permanent replacement of LIBOR as a pricing model is the manner in which loan documentation addresses the loss of LIBOR during the term of LIBOR based loans. In this regard ARRC has also produced a proposed standard form of fallback language to be added to loan documents that provides a mechanism to permanently replace LIBOR in transactions upon what is referred to as a "Benchmark Transition Event." Benchmark Transition Event is used to refer to the actual or impending termination of LIBOR. Although there is not yet universal adaptation by institutional lenders of ARCC's recommended language, a substantial portion of the industry is moving in that direction, including the Loan Syndications and Trading Association and most money center banks. The fallback language is a nearly unilateral amendment mechanism to allow the lender (or agent in syndicated deals) to reprice loans using an alternative benchmark rate (presumably SOFR) plus or minus an adjustment margin to bring the new benchmark into alignment with LIBOR (e.g., if the new rate is closer to a risk free rate than LIBOR, a positive adjustment). The institutions that have adopted the fallback language have done so following decisions made at the highest levels of the legal and credit infrastructure and deviations from policy require similar level of approval.
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Borrowers are appropriately skeptical of language that allows the lender to change the interest rate regime unilaterally and many are trying to negotiate the fallback language or eliminate it. Deviating from the ARRC language once adopted by the lender as a policy risks undermining the lender's global strategy for the rate change. Counsel and loan officers alike need to be aware of the institutional policy as revisions to these provisions may be prohibited entirely without high level approval. Furthermore, some changes historically sought by borrowers such as requiring treatment consistent with "substantially similar customers," present real problems. First and foremost determining what a "substantially similar customer" is presents extraordinary challenges. In order to demonstrate compliance with such language requires both disclosure of another borrower's documents and potentially financial condition. Even in redacted form this potentially violates the other customer's rights and or exposes their information to public disclosure.

While much uncertainty surrounds how the transition from LIBOR will develop over the next two years and beyond, prudent financial professionals will want to stay closely involved with this evolution and be prepared to meet the challenges and answer the questions that will emerge.

Brett P. Garver, a partner at Moritt Hock & Hamroff LLP, concentrates his practice in all aspects of complex commercial and asset-based lending, and is chair of the firm's Secured Lending Practice Group.

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