Via Electronic Mail

The Honorable Randal K. Quarles Vice Chairman of Supervision Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington DC, 20551 The Honorable Joseph Otting Comptroller of the Currency Office of the Comptroller of the Currency 400 7th Street, SW Washington, D.C. 20219

The Honorable Jelena McWilliams Chair Federal Deposit Insurance Corporation 550 17th Street, NW Washington, D.C. 20552

Dear Vice Chairman Quarles, Comptroller Otting, and Chair McWilliams:

We are regional banking organizations that primarily focus on providing traditional retail and commercial banking products and services. Our institutions are significant providers of loans to Main Street and the real economy. Our traditional retail and commercial bank business models focus on the banking and financial services needs of American consumers, small and mid-size businesses, and state and municipal governments.

We wholeheartedly support the efforts of the official sector and the Alternative Reference Rates Committee to facilitate an orderly transition away from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR). We believe SOFR can and should be the liquid reference rate for the significant majority of derivatives and debt products that currently reference LIBOR.

However, we believe that SOFR, on a stand-alone basis, is not well suited to be a benchmark for lending products and have concerns that this transition will adversely affect credit availability. LIBOR reflects unsecured inter-bank borrowing rates and accordingly contains a credit risk premium. During periods of economic stress, credit spreads on bank debt and other wholesale bank borrowings tend to increase, raising banks' cost of funds. Historically, during these periods, the spreads between LIBOR and other risk-free short-term borrowing rates widened reflecting a higher credit risk premium demanded by debt investors. Because bank loans are benchmarked to LIBOR, bank lending and borrowing rates moved in concert with each other.

SOFR is a credit risk-free benchmark reflecting rates on overnight borrowings secured by U.S. Treasury securities. During times of economic stress, SOFR (unlike LIBOR) will likely decrease disproportionately relative to other market rates as investors seek the safe haven of U.S. Treasury securities. In that event, the return on banks' SOFR-linked loans would decline, while banks' unhedged cost of funds would increase, thus creating a significant mismatch between bank assets

(loans) and liabilities (borrowings). Moreover, banks' SOFR-linked lending commitments to their commercial customers will likely exacerbate this mismatch. Specifically, borrowers may find the availability of low cost credit in the form of SOFR-linked credit lines committed prior to the market stress very attractive and borrowers may draw-down those lines to "hoard" liquidity.

The natural consequence of these forces will either be a reduction in the willingness of lenders to provide credit in a SOFR-only environment, particularly during periods of economic stress, and/or an increase in credit pricing through the cycle. In a SOFR-only environment, lenders may reduce lending even in a stable economic environment, because of the inherent uncertainty regarding how to appropriately price lines of credit committed in stable times that might be drawn during times of economic stress. Moreover, in economically stressed times, these forces could increase pro-cyclicality, put pressure on lenders' liquidity, and generally exacerbate stress in the economy.

We believe a sensible and practical way to address these risks is to create a SOFR-based lending framework that includes a credit risk premium. That framework could consist of a dynamic spread that reflects changes in banks' cost of funds over forward-looking term periods and is added on a periodic basis to SOFR-based rates. With more closely aligned borrowing and lending rates, banks will be more willing and able to extend credit during both good times and bad. Including credit sensitivity as part of the framework is the most straight forward approach to achieve this alignment, as it enjoys the benefits of using SOFR as a robust underlying rate and does not require complex hedging strategies which are ill-suited for smaller Main Street lenders and community banks with less complex balance sheets.

We believe this lending benchmark framework is practical and achievable. The vast majority of borrowers are already familiar with this approach to rates in the lending markets as many loans currently are tied to credit sensitive benchmarks like LIBOR, the prime rate, and COFI (cost of funds index). We also note that in addition to those rates, multiple other rates (e.g., CMT (constant maturity treasury rate) and MTA (monthly treasury average)) are used in lending markets, and that rate types in lending markets are diverse. Accordingly, participants in those markets do not have an expectation that interest rate frameworks will be monolithic (e.g., participants do not expect a SOFR-only environment). ² In addition, availability of a credit sensitive rate element would facilitate and likely accelerate the orderly transition from LIBOR given broad market acceptance of credit sensitive rates.

We want to make you aware of our support for SOFR and our desire to explore inclusion of a credit sensitive rate element in the lending markets as a supplement to SOFR. We seek your support in creating a private market participant industry working group, which would include the active participation of the Federal Reserve and other official sector participants, to determine

¹ Duffie/Stein discuss importance of credit sensitive benchmark:

Duffie, Darrell and Stein, Jeremy C. (2015), "Reforming LIBOR and Other Financial Market Benchmarks", Journal of Economic Perspectives, Volume 29, Number 2, Spring 2015, pp. 191-212. https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.29.2.191

²Conclusion that monolithic credit-risk free rate structures fail to address all market needs and further noting possibility that credit-sensitive rates will co-exist with credit-risk free rates in a post-LIBOR world:

Schrimpf, Andreas and Sushko, Vladyslav (2019), "Beyond LIBOR: a primer on the new reference rates", BIS Quarterly Review, March 2019, pp 29-52. https://www.bis.org/publ/qtrpdf/r_qt1903e.pdf

how best to do this. We believe inclusion of a credit risk premium is essential to addressing the concerns outlined above and will make the banking system and, in turn, the U.S. economy more resilient during times of economic stress and facilitate the transition of lending markets from LIBOR.

Sincerely,

R. Christopher Marshall

Executive Vice President and Treasurer

BBVA USA Bancshares, Inc.

Phone: 205-297-3169 chris.marshall@bbva.com

David C. Lindenauer

Treasurer, Executive Vice President

Citizens Bank

Phone: 617-994-7269

david.c.lindenauer@citizensbank.com

James C. Leonard

Executive Vice President, Treasurer

Fifth Third Bancorp Phone: 513-534-0715 james.leonard@53.com

John C. Trohan

Managing Director, Treasurer

MUFG Americas Holdings Corporation

Phone: 415-765-4233

john.trohan@unionbank.com

M. Deron Smithy

Executive Vice President, Treasurer

Regions Financial Corporation

Phone: 205-326-7832

deron.smithy@regions.com

Thomas A. Feil

Senior Vice President, Treasurer Capital One Financial Corporation

Phone: 703-720-3169

tom.feil@capitalone.com

James J. Herzog

Executive Vice President and Treasurer

Comerica Incorporated Phone: 214-462-6793 jjherzog@comerica.com

Scott Warman

Executive Vice President and Corporate Treasurer

M&T Bank Corporation Phone: 716-842-5813 swarman@mtb.com

Randall C. King

Executive Vice President, Treasurer The PNC Financial Services Group, Inc.

Phone: 412-762-2594

randall.king@pnc.com

Matthew Tyler

Corporate Treasurer

Zions Bancorporation, National Association

Phone: 801-844-7832

matthew.tyler@zionsbank.com