MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

PATRICK McHENRY, NC
RANKING MEMBER

December 19, 2019

The Honorable Randal Quarles
Vice Chair for Supervision
Federal Reserve Board of Governors
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Vice Chairman Quarles:

I write as a follow up to my June 18, 2019 letter to ensure prudential regulators are appropriately focused on the transition from the London Interbank Offered Rate (LIBOR) and its impact on consumers and institutions.

As you know, LIBOR is the underlying bank reference rate for approximately $200 trillion in financial contracts worldwide and is expected to be phased out by the end of 2021. I am concerned that there could be substantial operational risks associated with the transition, and that there does not seem to be a consensus alternative reference rate that will reflect banks' funding costs during periods of stress. Moreover, I'm concerned the transition will further impact mortgages, auto loans, business loans, and other consumer loans as well as LIBOR-based legacy contracts.

To that end, it is not clear whether enough has been done to ensure that institutions and consumers are prepared to transition away from LIBOR. I recognize, as you point out in your July response, "that the transition from LIBOR is not the result of any action or direction by the Federal Reserve or any other regulator."[1] However, the Federal Reserve Board of Governors, together with other prudential regulators, are no doubt responsible for ensuring consumers and institutions alike are educated on and prepared for the transition.

The Financial Stability Oversight Committee (FSOC) Chairman recently testified to the Committee that "[f]ailure to prepare [for this transition] adequately could cause significant disruptions across financial markets and to borrowers."[2] Chairman Mnuchin further testified in the same hearing that you, Fed Chairman Powell, "members of the OCC, the FDIC, and others met with 10 bank CEOs to specifically talk about this issue of LIBOR and the transition." Finally, Chairman Mnuchin indicated that "we may need to come back to Congress at some point and suggest some regulatory language in law to deal with this."[3]

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[1] July 12, 2019 Letter from Mr. Randal Quarles, Vice Chair for Supervision, Federal Reserve Board of Governors, to the Honorable Patrick McHenry, Ranking Member, House Committee on Financial Services.
[2] December 5, 2019 Testimony of the Honorable Steven Mnuchin, Secretary, Department of Treasury, to the House Committee on Financial Services, p.12.
[3] Id at 19.

I request that you and the prudential regulators, in conjunction with the Consumer Financial Protection Bureau (CFPB), provide a briefing in January to the Members of the Committee on your collective efforts to prepare institutions and consumers on the transition from LIBOR. The briefing should include information to assist Members to better understand the regulatory framework prudential regulators believe will address this issue.

I appreciate your prompt attention to this request. If you have any questions, please do not hesitate to contact Committee staff at (202) 225-7502.

Sincerely,

Patrick McHenry
Ranking Member

cc:

The Honorable Jerome Powell
The Honorable Steven Mnuchin
The Honorable Joseph Otting
The Honorable Jelena McWilliams
The Honorable Rodney Hood
The Honorable Kathleen Kraninger