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ARRC Releases Recommended Fallback Language for Private Student Loans

ARRC Also Releases Conventions for Using SOFR in Student Loans

The Alternative Reference Rates Committee (ARRC) today released its final recommended contractual fallback language for new variable rate private student loans. This language was developed for new contracts that reference U.S. dollar (USD) LIBOR to minimize risk and market disruption in the event that LIBOR is no longer usable.

The ARRC also today released conventions for how market participants can voluntarily use SOFR in new student loan products. The conventions recommend that SOFR-based student loan products reference the 30- or 90-day SOFR Average, with a monthly or quarterly reset period, respectively, with rates determined before the interest period, and a margin set by the lender or originator. The ARRC believes this recommendation aligns well with current practices and with lenders, servicers, borrowers, and investors' expectations for a vibrant market for the foreseeable future.

These recommendations are part of the ARRC's mission to support a seamless transition away from USD LIBOR and encourage the broad voluntary adoption of the ARRC's recommended alternative reference rate, the Secured Overnight Financing Rate (SOFR).

"The new fallback language and conventions are a key step to ensuring market readiness for the transition to SOFR," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "It is imperative that consumers feel confident in the financial products they hold, and we urge all market participants to move to SOFR, and for those who instead continue to base their student loans on LIBOR, we urge the adoption of this new fallback language."

The final recommended fallback language was prepared after consideration of all feedback received on the new variable rate private student loans fallback language consultation. The recommended language represents a consensus of the ARRC and its Consumer Products Working Group, which includes a diverse array of lenders, consumer groups, investors, and servicers.

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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