MRLP
McCalla Raymer Leibert Pierce, LLC

225 E. Robinson Street, Suite 155
Orlando, FL 32801
T. (321)-332-8565
www.mccalla.com
Office Hours: Monday - Friday 9am - 5pm (Eastern)

ALABAMA
CALIFORNIA
CONNECTICUT
FLORIDA
GEORGIA
OREGON
WASHINGTON
ILLINOIS
MISSISSIPPI
NEVADA
NEW JERSEY
NEW YORK
TEXAS

Libor Rate: The Change is Coming

Jane Bond, Managing Partner of FL Litigation, Jane.Bond@mccalla.com

What is the LIBOR rate, what is the change and when is it happening? The change is coming quickly and here are the basic facts regarding the LIBOR rate change in mortgage documents.

What is LIBOR? LIBOR stands for the London Interbank Offered Rate. LIBOR is the average interest rate at which leading banks borrow funds from other banks in the London market. LIBOR is the most widely used benchmark or reference rate for short term interest rates. It is an index used in setting the interest rate for many adjustable rate consumer financial products. The financial services industry has used LIBOR to determine the interest rate on variable rate loans, which in the residential mortgage arena, include adjustable rate mortgages, reverse mortgages, and HELOCS. The interest rate periodically changes on these loans and is based on the LIBOR rate. LIBOR is being discontinued and a new standard will be used. There are an estimated 1.3 trillion consumer loans with an interest rate based on LIBOR.

When is the change taking place? The change is taking place on or before December 31, 2021.

Why is it changing? The regulators over LIBOR have indicated they cannot guarantee LIBOR availability after the end of 2021. Over the years it has become less reliable, and worldwide, alternatives are being sought.

What is the new standard? The new recommended standard for residential mortgages is the SOFR rate. SOFR stands for Secured Overnight Financing Rate. This rate is published daily and is administered by the Federal Reserve Bank of New York. Adjustable rate mortgages, reverse mortgages, and HELOCS will adjust their interest rates based on this new standard. SORF is included in collateral documents since July 2020. The GSE's will cease purchasing LIBOR based loans on 12/31/20.

What are the potential risks?
Timely Notification: Any consumer loan currently based on LIBOR, the consumer will need to be notified of the change at least 6 months prior to the change being made. The replacement index will need to be disclosed in writing.

Litigation Risk: As the standards change the interest rates won't be the same; Consumers may find the change is detrimental to them or that the process hasn't been explained clearly to them. As this unfolds, expect to see litigation based on the change.

Need More information?
ARRC (Alternative Reference Rates Committee) has best practices for servicers.
https://www.newyorkfed.org/arrc

McCalla Raymer Leibert Pierce, LLC

225 E. Robinson Street, Suite 155
Orlando, FL 32801
T. (321)-332-8565
www.mccalla.com
Office Hours: Monday - Friday 9am - 5pm (Eastern)

The CFPB has information on their website entitled: You might have heard that LIBOR is going away. Here's what you need to know about LIBOR and adjustable-rate loans. **https://www.consumerfinance.gov/about-us/blog/libor-going-away-heres-what-you-need-know-about-libor-and-adjustable-rate-loans/**

Fannie Mae: **https://capmrkt.fanniemae.com/portal/funding-the-market/libor/libor-transition.html**

Freddie Mac: **http://www.freddiemac.com/about/libor-transition**