Advance Notice of Proposed Rulemaking: Seeking Stakeholder Comment on a Proposal for Adjustable Rate Mortgages Transitioning from LIBOR to Alternate Indices Published in Federal Register

On October 5, 2021, the Department of Housing and Urban Development (HUD) published an advance notice of proposed rulemaking in the Federal Register (FR), Adjustable Rate Mortgages: Transitioning from LIBOR to Alternate Indices (Docket No. FR-6151-A-01) to collect public comments prior to publishing the proposed rule.

The majority of adjustable rate mortgages (ARMs) insured by the Federal Housing Administration are based on the London Interbank Offered Rate (LIBOR), an interest rate index that will no longer be published after June 30, 2023. In response, HUD has begun to transition away from LIBOR as an approved interest rate index.

HUD is considering a rule that would address a Secretary-approved replacement index for existing loans and provide a transition date consistent with the cessation of the LIBOR index. Additionally, HUD is considering providing a Secretary-approved replacement index for legacy ARMs tied to the LIBOR index. For a replacement index, HUD is also considering the Secured Overnight Funding Rate (SOFR) interest rate index, which would include a compatible spread adjustment to minimize the impact of the replacement. These changes impact forward and Home Equity Conversion Mortgage (HECM) programs.

HUD recognizes there may be operational difficulties for mortgagees to implement the change to a new index. The advance notice of proposed rulemaking specifically requests public comment on the best method of making such a transition for legacy loans and new originations. Comments received from the public will aid the development of policy that is least disruptive for existing loans or cause unnecessary confusion to the industry.

Interested stakeholders are encouraged to review and provide comments on the advance notice of proposed rulemaking within the comment period, which began on October 5, 2021, and concludes on December 6, 2021. For instructions on submitting comments, stakeholders must follow the methods outlined in the Federal Register.
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