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ARRC Welcomes CFPB's Updated Consumer Handbook and Proposed Rule that Facilitates the Transition Away from LIBOR

The Alternative Reference Rates Committee (ARRC) welcomed the Consumer Financial Protection Bureau's (CFPB) actions yesterday to facilitate the transition away from LIBOR for consumers and regulated entities. Specifically, the CFPB released:

- A Notice of Proposed Rulemaking (NPRM) concerning the anticipated discontinuation of LIBOR,
- An updated Consumer Handbook on Adjustable-Rate Mortgages (CHARM), and
- Guidance in the form of frequently asked questions on transition topics that do not require any amendments to Regulation Z being proposed through the NPRM.

The NPRM proposes examples of replacement indices for LIBOR for open-end and closed-end products that meet Regulation Z standards. It proposes to permit creditors for home equity lines of credit (HELOCs) and credit card issuers to replace LIBOR with alternative reference rates on or after March 15, 2021, if certain conditions are met.

The CHARM booklet provides consumers with information about the features and risks of adjustable-rate mortgages. Among other changes, it removes references to LIBOR.

The frequently asked questions discuss LIBOR transition topics related to general implementation considerations and other current regulatory requirements, such as adjustable-rate mortgage servicing notices and adjustable-rate mortgage and HELOC origination disclosures.

"The CFPB has shown tremendous leadership in advancing the transition away from LIBOR in the U.S. consumer financial products marketplace. The proposed rule will help borrowers and lenders transition their financial products to robust alternative reference rates like the Secured Overnight Financing Rate," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "We encourage all impacted institutions to take action to support a smooth transition, and encourage them to draw from the ARRC's Best Practices when doing so."

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 Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. 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 Secured Overnight Financing Rate (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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