

FREQUENTLY ASKED QUESTIONS FOR MORTGAGE CUSTOMERS: LIBOR TRANSITION



Q&A FOR MORTGAGE CUSTOMERS REGARDING BENCHMARK INTEREST RATE REFORM AND THE TRANSITION AWAY FROM LIBOR

With thanks to 

Q What is LIBOR?

LIBOR stands for London Interbank Offered Rate. It is the rate at which major banks can borrow from one another in the interbank market (over periods of overnight, one week, two weeks, one month, three months, six months and twelve months) and for many years has been used as a key interest rate benchmark across a wide range of financial products globally, including mortgages.

Q Why is LIBOR ending in its current form?

The LIBOR benchmark relies on estimates from banks of their borrowing costs in markets which are no longer active, so international regulators no longer considered LIBOR sufficiently robust or sustainable given its widespread use.

In July 2017 the Financial Conduct Authority (**FCA**), confirmed that the FCA does not intend to sustain LIBOR through its influence or legal powers beyond 2021 and made clear that financial institutions must transition impacted customers to alternative rates before that date. All mortgage lenders have been proceeding on this basis and it has since been confirmed in March 2021 that LIBOR will no longer be available in its current form after end-2021.

Subsequently, lenders globally have been working to move customers onto more robust and more transparent benchmark rates.

Q What does this mean for me?

Existing contracts based on LIBOR should be switched to a robust alternative rate before 31 December 2021.

Therefore, if you have a mortgage where the interest rate is calculated by reference to LIBOR, changes may have to be made to your mortgage documentation to provide for an alternative reference rate against which interest on your loan can be calculated.

Information for borrowers on mortgage interest rates and LIBOR can be found on the [FCA website](#).

Q When will my mortgage(s) transition to an alternative interest rate?

The FCA has recently confirmed that, notwithstanding the on-going Covid-19 pandemic, sterling LIBOR will discontinue in its current form at the end of December 2021.

All mortgage lenders are working to meet the FCA's expectations.

If your mortgage is linked to LIBOR, you do not need to do anything before your lender reaches out to let you know how this impacts you. Your mortgage lender will be in touch well in advance of the December 2021 deadline with details on how the transition process will progress for you.

Q Will my mortgage documentation need to change?

Unless your mortgage will be fully repaid by the end of December 2021, mortgage documentation which currently references LIBOR will may need to be amended. All mortgage lenders are working to make this process as seamless as possible.

Q Am I going to pay the same amount?

The FCA has made it clear that LIBOR transition should not be used to move customers with LIBOR linked mortgages to replacement rates that are expected to be higher than what LIBOR would have been, or otherwise introduce inferior terms.

The FCA also does not expect mortgage lenders to be worse off as a result of the transition away from LIBOR. So, because the way each reference rate (such as LIBOR or Bank of England Base Rate) is calculated, the replacement rate your mortgage will transition to may include a credit adjustment spread.

A credit adjustment spread is a small adjustment to account for the difference in calculation between LIBOR and the replacement rate. An FCA [video](#) and [supporting document](#) from September 2020 sets out why the difference between LIBOR and replacement rates creates the need for a credit adjustment spread for existing contracts. .

Like LIBOR, the alternative interest rate that is applied to your mortgage may be a variable rate, so may increase or decrease in the future.

Your mortgage lender will be in touch well in advance of the December 2021 to tell you more about the replacement rate that will apply to your mortgage and how this is calculated.

Q To avoid transitioning, can I repay my mortgage early without penalty?

This will depend on the terms of the mortgage you have. Please speak to your mortgage lender.

Q What is the potential impact on me?

This is a significant change and mortgage lenders are working hard to minimise its impact on customers as far as possible.

In line with the national roadmap for transition, supported by the FCA and Bank of England, LIBOR should not be used in any new mortgage contracts going forward.

If you already have a mortgage that will not be fully repaid before the end of 2021 and the interest rate on your mortgage is set by reference to LIBOR, your mortgage lender will be looking to make changes to this ahead of the end of 2021 to provide for an alternative interest rate.

Q What happens if my mortgage can't be moved onto an alternative rate?

Some contracts genuinely have no realistic ability to be amended to reference an alternative replacement rate before the discontinuation of LIBOR at the end of this year. The FCA is currently developing a time limited solution for these, but of which use will be limited to those contracts for which the FCA permit use.

The exact solution, and which contracts can use it, will not be confirmed until more information is provided by the FCA.

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