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Libor - Not Exactly an Obituary, But...

A group of financial experts is scheduled to meet at on Thursday to make **funeral arrangements for Libor**. In case you hadn't heard, the London interbank offered rate, the number that indicates how much one bank needs to borrow from another, is not expected to survive much beyond the end of the decade.

All good, or even not so good, things must come to an end, and Libor has had moments of each, but Matt Phillips, writing in the New York Times, says the problem is that the financial world, going into the meeting at the Federal Reserve of New York, hasn't figured out what to do if/when Libor breathes its last.

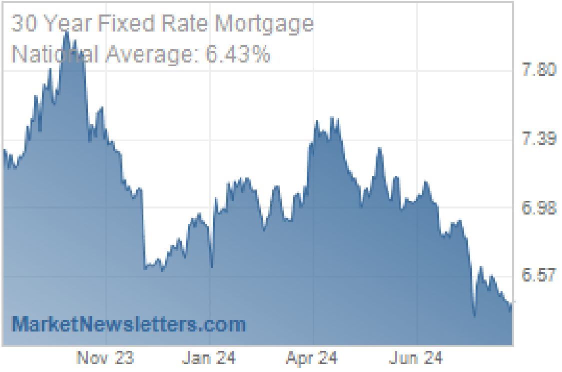
While most of this country has no clue about Libor, few are untouched by it. It is the **basis for interest rates on huge corporate loans**, private student loans, and for resetting rates on many adjustable rate mortgages. Phillips says it also underpins nearly $200 trillion in derivative contracts. It is, in fact the dominant determinant of interest rates on nearly all adjustable rate financial products. These typically use the formula of Libor + X points, with X determined by the specific contract.

There is more than one Libor, covering different currencies and time periods. The most common one in use is a **three-month rate expressed**, currently at about 2.44 percent.

If it goes away, what will replace it? The world seems unsure and Phillips says regulators are worried that banks aren't taking the situation seriously. Unwinding from the benchmark will be a huge task and will require a lot of lead time.

He says that **big problem with Libor** is how easy it is to manipulate. The Libor survey doesn't ask a bank what it paid to borrow that day, but "what do you think you would have to pay. With a relatively small number of banks involved it didn't take long for someone to realize how easily the number could be skewed by a conspiring subset of respondents. "Because bank traders make high-stakes wagers using derivatives whose values are based in part on Libor, they could vastly improve their chances of making money if they could influence the very thing they were betting on," Phillips writes. This type of thinking resulted in a major scandal in 2008 which costs banks billions in penalties and sent a few traders to jail.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

After the dust settled, British regulators had to pressure banks to continue their survey participation. They feared that, if the rate disappeared abruptly it could endanger the whole financial system. As part of a gradual wind-down, the government will not push banks to participate after 2021. However, the ICE Benchmark Administration, the group that produces Libor, has held talks with banks about a **voluntary agreement to provide rates** so some form of the index could continue beyond 2021. No agreement has been reached.

An industry group sponsored by the Federal Reserve has developed the Secured Overnight Financing Rate, or SOFR in hopes of replacing the Libor. It began to be published in April. The New York meeting is expected to address details such as the language to replace Libor on contracts for financial products

Phillips concludes on a non-hopeful note. "Contracts must be changed. Computer systems must be updated. Customers must be communicated with. Such costly administrative work does not yield bonus-increasing fees, and it is not generally considered glamorous on Wall Street."