NCLC’s Pizor Urges Protections for Borrowers With Adjustable Interest Rate Loans in Senate Testimony

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WASHINGTON– Today, Andrew Pizor, staff attorney at the National Consumer Law Center, testified before the U.S. Senate Committee on Banking, Housing, and Urban Affairs during “The Libor Transition: Protecting Consumers and Investors” hearing on the consumer and investor impact of transitioning from the Libor benchmark interest rate.

“The end of the Libor will affect millions of consumers whose adjustable interest rates are tied to that index,” warned Pizor. “But if Congress acts soon, most loans will convert to the safest replacement index—the Secured Overnight Financing Rate (SOFR)—and consumers will retain their rights under consumer protection laws if other lenders manipulate the situation to harm borrowers.”

Libor, which once stood for London Interbank Offered Rate but is now simply “Libor,” is a benchmark interest rate based on the rate at which banks lend to each other on the international interbank market for short-term loans. Due to scandal and questions of its validity as a benchmark rate, Libor is being phased out. Servicers of adjustable rate loans that are tied to the Libor index will need to use a different index.

Pizor and other consumer advocates recommend transitioning to the Secured Overnight Financing Rate (SOFR), a “broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.”

Additional resources:

• Comments to CFPB re Facilitating the LIBOR Transition by Amending Regulation Z, Aug. 4, 2020
• Issue Brief: The End of Libor: Risk and Solutions for Residential Mortgages, February 2020