LIBOR is going away. Here's what you need to know.

Sometime after 2021, LIBOR is expected to be discontinued. This change will affect some adjustable (or variable) rate loans and lines of credit like adjustable-rate mortgages (ARMs), reverse mortgages, home equity lines of credit, credit cards, auto loans, student loans, and any other personal loans that use LIBOR as the index.

What is LIBOR?

LIBOR is an index commonly used in setting the interest rate for many adjustable-rate consumer financial products. An index is a benchmark interest rate that reflects market conditions.

Many different adjustable-rate products use LIBOR. ARMs are the most common. There are an estimated $1.3 trillion in consumer loans with an interest rate based on LIBOR. The bulk of the debt is for residential mortgages.

When and why is LIBOR going away?

LIBOR is based on transactions among banks that don't occur as often as they did in prior years, making the index less reliable and credible. The UK regulator that oversees the LIBOR panel has stated that it cannot guarantee LIBOR's availability beyond the end of 2021. Across the globe, governments and financial institutions have been working to identify alternatives.

What will replace LIBOR?

In the U.S., the Federal Reserve has convened a working group called the Alternative Reference Rates Committee (ARRC) to help facilitate the likely transition away from LIBOR. The ARRC is comprised of a diverse set of private sector entities, and a wide array of official sector entities (including regulators such as the CFPB) as non-voting ex officio members. The ARRC has recommended an index called the Secured Overnight Financing Rate (SOFR) as its recommended alternative to LIBOR and has published a transition plan to promote the use of SOFR on a voluntary basis.

What do I need to know if I have a loan or line of credit based on LIBOR?

If you have a loan or line of credit based on LIBOR, your lender may change to a different index, likely around the anticipated date of LIBOR's discontinuation.

If you'd like to check whether your loan or line of credit may be impacted, you can look in your loan contract. Your loan contract tells you whether your interest rate is fixed or adjustable. If it's adjustable, the contract should list which index is used to calculate your interest rate.

If you have questions about the impact of this transition on your loan or line of credit, you can call your lender or servicer for more information. Because lenders and servicers are currently planning for this transition, they might not have answers to all of your questions at this time. More information will be available as the transition gets closer.

What is an index and how does it affect my interest rate?

When you take out a loan or line of credit, the amount you borrow is called the principal. Interest is an amount you will pay over a certain period of time to borrow the money. Your interest rate is the interest you are being charged, expressed as a percentage of your principal. The amount of interest you will pay over the life of your loan and in your monthly loan payment is determined by your interest rate (and other loan terms).

For adjustable rate loans and lines of credit, lenders typically calculate your interest rate using two numbers: the index and the margin. The index is a benchmark interest rate that reflects market conditions. The index changes based on the market, and it's usually determined or maintained by a third party.

The margin is the number of percentage points added to the index by the lender to get your total interest rate.

Index + Margin = Your Interest Rate

For example, you could have a mortgage with an interest rate of LIBOR, plus 2 percent. Or you might have a credit card with an interest rate equal to the U.S. Prime Rate, plus 9 percent.

What if I'm shopping for a new adjustable-rate loan or line of credit?

If you're in the market for an adjustable-rate loan or line of credit and you choose a product that uses a LIBOR-based index, your initial loan index will be LIBOR but your lender may change to a different index, likely around the anticipated date of LIBOR's discontinuation.

As with any other financial decision, ask questions and consider your options before you agree to loan terms:

- Request quotes from at least three different lenders.
- Ask lenders about the various loan options they offer, including fixed interest rate options.
- If you are considering an adjustable rate loan, make sure you are confident you know what your maximum payment could be and that you can afford it.

What if I have other questions about loans?

If you have other questions about adjustable rate loans or lines of credit, you can find answers at Ask CFPB.

Topics include:

- When mortgage payments can change
- Differences between fixed vs adjustable mortgage rates
- How paying down a mortgage works
- Credit cards
- Student loan repayment options

If you are concerned about affording your loan, contact your lender or servicer. If you have a mortgage, you can also contact a HUD-approved housing counselor at (800) 569-4287 or https://www.consumerfinance.gov/find-a-housing-counselor/.

If you're thinking about refinancing your loan or line of credit, there are costs, benefits and risks to getting a new loan. Be sure to compare loan types and lenders.

If you're having a problem with your loan or line of credit, try reaching out to your lender or servicer and see if they can solve your problem. You can also submit a complaint to the CFPB and we will work to get you a response.