

LIBOR BEING REPLACED WITH SECURED OVERNIGHT FINANCING RATE

January 6, 2023

By: Jeffrey R. Margolis

LIBOR, formerly known as the London Interbank Offered Rate, was the key benchmark for setting interest rates charged on adjustable-rate loans, mortgages, and corporate debt for more than 40 years. However, LIBOR is being replaced by the Secured Overnight Financing Rate (SOFR) which is considered a more accurate and more secure pricing benchmark. On December 16, 2022, the Federal Reserve Board adopted a final rule that implements the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR (Secured Overnight Financing Rate) that will replace LIBOR after June 30, 2023. LIBOR will no longer be used to issue new loans in the U.S. and the U.S. dollar LIBOR panels will end after June 30, 2023.

Congress enacted the LIBOR Act to provide a uniform, nationwide solution for so-called tough legacy contracts that do not have clear and practicable provisions for replacing LIBOR after June 30, 2023. The Federal Reserve Board final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the Act. These contracts include U.S. contracts that do not mature before LIBOR ends and that lack adequate "fallback" provisions that would replace LIBOR with a practicable replacement benchmark rate.

Those with adjustable-rate loans should confirm whether the loan is based on LIBOR and, if so, determine the index that the lender will be switching to. In the absence of a provision in the loan documents, SOFR will replace LIBOR.

Related Practices

Real Estate

Related Practice Teams

Business, Finance & Tax

Related Team Member(s)

Jeffrey R. Margolis

Topics

LIBOR

Mortgages

Interest Rates

Real Estate