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LI(e)BOR: Fact or Fiction?

In recent weeks, the financial world has been shocked to learn that LIBOR, the London Interbank Offered Rate, has been subject to collusion by some of the world's largest financial institutions. LIBOR is one of the most widely used interest rate benchmarks for pricing mortgages, student loans, and financial instruments, so the story has attracted a lot of attention. The alleged manipulation occurred a number of years ago, so it's unlikely to have any immediate impact on the LIBOR-based mortgages of Aspiriant clients; however, there have been calls for more oversight into how LIBOR is computed and even to abolish the rate altogether, so it's possible that clients will be impacted over time.

The intent of LIBOR is to reflect the current interest rate environment using the self-reported interest rates that banks pay to borrow from each other. It turns out that as the credit crisis was unfolding in 2008, some banks were colluding with one another to lowball their rate submissions. Even before that, they may have manipulated rates higher or lower to their own advantage. Adding insult to injury for investors, regulators may have known of wrongdoing by banks in 2008 but never took action to stop it.

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It's hard to say for certain what LIBOR's future looks like. Some commentators suggest simply adding some rigor and oversight to the LIBOR calculation process by having regulators audit the submitted rates. Others think that interbank lending is an outdated methodology for setting interest rates since so many banks now borrow directly from central banks instead of from each other. Consequently, retiring LIBOR and replacing it with a more scientifically derived benchmark is possible.

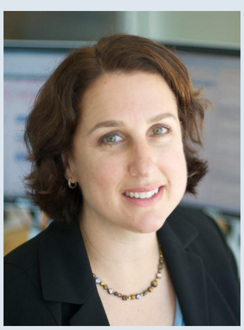
"...there have been calls...to abolish the [LIBOR] rate altogether, so it's possible that clients will be impacted over time."

What impact does the LIBOR scandal have on our clients?

The manipulation during 2008-09 resulted in LIBOR being understated, which in turn resulted in artificially low interest rates for clients with adjustable rate mortgages (but also for bond holders and for the banks holding those mortgages). Going forward, it's unclear how LIBOR's future will play out for current and future mortgages. Many clients have mortgage payments that fluctuate every 1 or 6 months based on an underlying LIBOR rate; others have a fixed interest rate for between 3 and 10 years, after which the mortgage rate will adjust based on LIBOR. If the current LIBOR methodology sticks, LIBOR-based loans shouldn't be impacted. Most loan documents allow the lender to replace LIBOR with another similar benchmark rate if LIBOR becomes extinct, so even if that happens, it shouldn't create too many challenges for borrowers. For now, we're still comfortable with clients obtaining new LIBOR-based mortgages.

Aspiriant will monitor developments on this front and is available to help clients determine whether changing their mortgage is appropriate. In the interim, please contact your client service team if you have any questions about your mortgage.

Sandi Bragar, CFP®
Director of Planning



Sandi Bragar, CFP®
Director of Planning

As Aspiriant's Director of Planning, Sandi is responsible for establishing and maintaining the firm's wealth planning philosophy, service offering, and resources. She is Chair of the Wealth Planning Committee, and serves on the Client Service Committee. Sandi joined Aspiriant in 1999 and became a principal of the firm in 2002.

Sandi is a member of the Financial Planning Association and has served on the Programs Task Force for the organization's annual national conference and as a mentor in the Financial Planning Association's Residency Program. She has also been an instructor for the Certificate Program in the Personal Financial Planning Program at the University of California-Berkeley. Sandi has been frequently quoted in the media, in publications such as *Barron's, USA Today, The Chicago Tribune, Registered Rep magazine, San Francisco Chronicle* and *ABC7/KGO-TV.*

Sandi holds a BA degree in Business Economics from the University of California-Santa Barbara. She earned her Certified Public Accountant credential in 1996 and her Certified Financial Planner credential in 1999.