

# My mortgage and LIBOR

While the Bank of England fixes official base rates, BBA LIBOR reflects the actual costs for banks to borrow money from each other. Mortgages which have rates set to LIBOR will be influenced by movements in these rates, which do not necessarily always closely reflect movements in the Bank of England base rate.

## **What exactly is BBA LIBOR?**

LIBOR stands for the London Interbank Offered Rate and is the rate of interest at which banks borrow funds from each other in London.

BBA LIBOR is the most widely used "benchmark" or reference rate for short term interest rates. It is compiled by the BBA in conjunction with Thomson Reuters and released to the market each day.

## **Is my mortgage linked to LIBOR?**

Check with your bank or your mortgage documentation. There are several ways that lenders can calculate your monthly payment. Only certain mortgages are linked directly to LIBOR, and those that are should make this clear.

## **Which LIBOR rate?**

There is more than one LIBOR rate. In fact, Thomson Reuters produces for the BBA 150 rates every day: for ten different currencies and, within each of these currencies, for 15 time periods (known as maturities - these range from overnight, two-day and one-week loans to one year loans).

Each LIBOR rate is defined in terms of currency and maturity, for example "three month sterling LIBOR".

It is very important first to ascertain which LIBOR rate your mortgage is set against. This will be clearly defined in your mortgage contract. If you are unable to locate the exact rate then you should speak to your lender.

### **Premium**

On top of the LIBOR rate, each mortgage lender charges a fixed premium based on your individual circumstances at the time your lender offered your mortgage. This premium will vary between different borrowers but will be a fixed amount above the relevant LIBOR rate.

### **Mortgage rate resetting**

For mortgages underpinned by LIBOR, the monthly payment rate will be recalculated at regular set times throughout the life of the mortgage. You will then pay the new fixed rate until the next recalculation. This usually happens every three months, although some mortgages have different periods between the recalculations. For example, if your mortgage resets on the 16<sup>th</sup> November and is set against three month sterling LIBOR, then your mortgage from 16<sup>th</sup> November to the 16<sup>th</sup> February will be fixed at the rate of three month sterling LIBOR on the 16<sup>th</sup> November (plus the premium as described above).

### **How can I keep track of BBA LIBOR rates?**

You can find current BBA LIBOR rates on Thomson Reuters website ([www.reuters.com](http://www.reuters.com)), other data vendor websites, or printed in the Financial Times, Wall Street Journal and other newspapers. You can also three month sterling LIBOR rates to two decimal places by following us on Twitter: [www.twitter.com/BBALIBOR](https://www.twitter.com/BBALIBOR)

On the BBA LIBOR website ([www.bbalibor.com](http://www.bbalibor.com)) we offer six month's worth of rates on a two month delay for personal reference, and this is updated at the beginning of every month.

### **LIBOR movements**

As premiums are a fixed value above LIBOR rates then your mortgage repayments will be directly affected by the level of LIBOR at the reset date.

LIBOR reflects the rates at which banks can fund themselves and will be influenced by changing market conditions. In periods of financial stress, the cost of a bank's own borrowing will increase, which will in turn cause LIBOR to increase. Similarly, LIBOR will decrease as levels of financial stress ease.

For further information on BBA LIBOR and historical rates, see the BBA website - [www.bba.org.uk](http://www.bba.org.uk)