Congressional Budget Office
Cost Estimate

March 3, 2022

H.R. 4616, Adjustable Interest Rate (LIBOR) Act of 2021

As passed by the House of Representatives on December 8, 2021

By Fiscal Year, Millions of Dollars	2022	2022-2026	2022-2031
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	No	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2032?	No	Contains intergovernmental mandate?	Yes, Under Threshold
		Contains private-sector mandate?	Yes, Under Threshold

H.R. 4616 would establish a process for certain financial contracts that currently reference the London Interbank Offered Rate (LIBOR) to instead reference a replacement benchmark interest rate upon the occurrence of certain events affecting LIBOR. LIBOR is an index rate (or interest rate based on a basket of similar financial transactions that adjusts as economic conditions change) that is commonly used in setting the interest rate for many adjustable-rate consumer financial products. The United Kingdom regulator that oversees the LIBOR panel has indicated that it will cease publication of the U.S. Dollar LIBOR after June 30, 2023. H.R. 4616 would task the Board of Governors of the Federal Reserve System with identifying replacement rates prior to that date based on the Secured Overnight Financing Rate, an index rate based on the costs of borrowing that is collateralized by U.S. Treasury securities.

Using information from the Board of Governors, CBO estimates that enacting H.R. 4616 would not affect the operating costs of the Federal Reserve System. Under current law, the Federal Reserve has convened a working group called the Alternative Reference Rates Committee to help facilitate the transition from LIBOR. CBO estimates that the Federal Reserve will continue to work with other regulators and supervised institutions to prepare for the transition from LIBOR and that enacting the legislation would not change the costs associated with that work.

In addition, some federal contracts for student loans and mortgages currently reference LIBOR, so replacing that rate could have budgetary effects. However, CBO expects that agencies will select the same replacement rates under current law. Therefore, CBO estimates enacting H.R. 4616 would have no effect on federal spending.

H.R. 4616 would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate cost would not exceed the thresholds established in UMRA ($85 million for intergovernmental and $170 million for private-sector mandates in 2021, respectively, adjusted annually for inflation).

Because LIBOR is widely used in public and private financial contracts, H.R. 4616 would impose mandates by requiring the use of a replacement benchmark. However, in discussions with CBO, financial experts indicated that most affected entities have already updated existing financial contracts with fallback provisions to reference the new replacement benchmark rate as required in the legislation. Therefore, CBO estimates that the cost of the mandates would not exceed the intergovernmental or private-sector thresholds established in UMRA.

In addition, the legislation would impose a mandate by explicitly preempting the laws of states, the District of Columbia, and U.S. Territories that govern the transition from LIBOR. Although the legislation would limit the application of those laws, it would impose no duty on such intergovernmental entities that would result in additional spending or loss of revenue. Consequently, the cost would not exceed the threshold established in UMRA for intergovernmental mandates.

The CBO staff contacts for this estimate are Nathaniel Frentz (for federal costs) and Rachel Austin (for mandates). The estimate was reviewed by H. Samuel Papenfuss, Deputy Director of Budget Analysis.