

I often begin these hearings by taking us back to 2008, and to the years that followed, because we are still living with the fallout – and in the case of the Libor scandal, we are still cleaning up a mess caused by the biggest banks in the world, more than a decade later.

As the housing market crashed and more than eight million workers lost their jobs, central bankers began to realize just how many markets were broken in the global economy.

One of those was the interest rate system. Most people have never heard of Libor – like so much in the financial system, it's an opaque term for something that affects millions of people's bills and bank accounts.

Libor has been the most widely used interest rate benchmark around the world, used to set payments for millions of student loans, mortgages, and small business and auto loans. Over three hundred trillion dollars was tied to Libor at its peak.

With that kind of money involved, it should surprise no one that bankers figured out a way to conspire to rig the interest rate, to enrich themselves.

After the scandal broke in 2012 uncovering the banks' manipulation of Libor, this Committee and the federal financial regulators studied the problems with Libor, and who was at fault. U.S. and foreign regulators imposed billions of dollars in fines on several global banks for manipulating the interest rate and taking advantage of consumers and investors.

Now, nearly a decade later, our financial system is finally transitioning away from Libor. Today we will consider how the financial system can move on from this benchmark set by a handful of the world's largest banks – a system we found out was ripe for exploitation.

Part of that transition involves dealing with trillions of dollars in legacy contracts that are tied to Libor, and that will continue after the rate is discontinued in June of 2023.

After a slow start, the Federal Reserve Bank of New York and the Federal Reserve Board, along with industry stakeholders and consumer advocates, have established a path forward. They developed a new, more reliable and transparent benchmark rate called SOFR – the Secured Overnight Financing Rate. And they have put forward a framework to address legacy loans and contracts that were written assuming that Libor would always exist.

Because Libor is so widely used, homeowners and students who have never heard of Libor will be at risk when it's discontinued if we don't take action.

If their loans don't have specific instructions about what happens if Libor disappears, or if their loans give loan servicers the discretion to pick a different rate, those borrowers could be in for a shock.

Small and large businesses could be in a similar situation—forced to renegotiate a loan tied to Libor at a time when they're just getting back on their feet from the pandemic.

Banking agency officials and stakeholders have all said federal legislation would help address those long-term loans and contracts, and reduce the potential for time-consuming and costly litigation.

Our colleagues on the House Financial Services Committee began bipartisan work on a bill that addresses these legacy problems, and Senator Tester, working with Senator Tillis, is preparing a Senate companion.

If done right, this legislation can help borrowers who don't have the ability to bargain with their student loan lender or mortgage banker, while also providing certainty to lenders. We know we need to act, and I appreciate these efforts by members of our committee.

Under the current proposal, lenders with legacy contracts that don't specify a Libor alternative can transition to SOFR – so long as they don't make other changes that could harm borrowers. That would allow them to avoid potentially complicated litigation.

It's frustrating that we are forced to spend taxpayers' time and money cleaning up after the biggest banks, over and over again. Unfortunately, if we don't work to mitigate the damage from another big bank scandal, it's family businesses and homeowners and students who will pay the price.

Our witnesses and their organizations have developed a narrow and consistent solution that protects small businesses, and families with mortgages, and Americans paying off student loans.

I look forward to hearing from our witnesses, and to working with my colleagues to protect consumers and to protect the economy.

We have proven we can come together on this committee to find areas of agreement, and to advance commonsense solutions for the people we serve.

My hope is we can do the same on Libor.