

## Grassley, Kirk Question Treasury Secretary Inaction on LIBOR, Impact on U.S. Borrowers

Written by Grassley Press

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WASHINGTON – Sen. Chuck Grassley of Iowa and Sen. Mark Kirk of Illinois today asked Treasury Secretary Timothy Geithner to explain his apparent inaction to stem the dominance and inform the public of a rigged interest rate that affects interest rates on mortgages, student loans, credit cards and other loans. “Taxpayers need to know there’s a cop on the beat at the Treasury Department, making sure the interest rates they pay on everything from home loans to retirement investments aren’t rigged,” Grassley said. “If the attitude of the Treasury Secretary is that it isn’t his responsibility to take action or to tell the public, that’s going to harm confidence in our financial system and create a lack of certainty.”

“We need the Treasury Department to take swift action to inform consumers, homeowners, students and other borrowers about potential impacts of faulty interest rates,” said Kirk, a member of the Senate Committee on Banking, Housing and Urban Affairs. “We cannot expect confidence in our financial system to last without this crucial information, and the Treasury should consider alternative solutions to boost confidence in the marketplace.”

The London interbank offered rate, or LIBOR, is the average interest rate that banks use to borrow from each other. Set in London, the rate is one of the main rates that determine the cost of interest for trillions of dollars of loans on a variety of everyday consumer loans such as mortgages and more complicated financial instruments such as derivatives.

In recent testimony before Congress, Geithner said that when as president of the Federal Reserve Bank of New York, he became aware of concerns that the LIBOR rate was being rigged, he deferred to the British central bankers to fix the problem. Despite those concerns, Geithner appears not to have taken action “to diminish use of this flawed index in U.S. financial markets; to the contrary, Treasury’s use of LIBOR has increased,” Grassley and Kirk wrote in a letter to Geithner.

Grassley and Kirk asked Geithner to answer questions including whether the Treasury Department considered the risk to U.S. borrowers, including state, municipal, and local governments facing higher debt burdens as a result of the LIBOR scandal; whether U.S. officials considered the litigation risks to U.S. borrowers in deciding to raise the LIBOR scandal only to the attention of British central banks rather than U.S. lenders and borrowers; and whether the Treasury Department’s continued reliance on LIBOR is affecting borrower access to Small Business Administration loans.

Grassley and Kirk concluded, “In the wake of this scandal, we believe that it is essential to undertake steps to consider the creation of an American-based interest rate index. If U.S. investors and borrowers have suffered financial harm from our dependence on an index set in London, they have the right to expect the country’s leaders to support better alternatives. Complacency in the wake of losses and lawsuits will diminish both investor and borrower confidence regarding debt securities issued in U.S. financial markets.”

The text of the Grassley-Kirk letter to Geithner is available [here](#).

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