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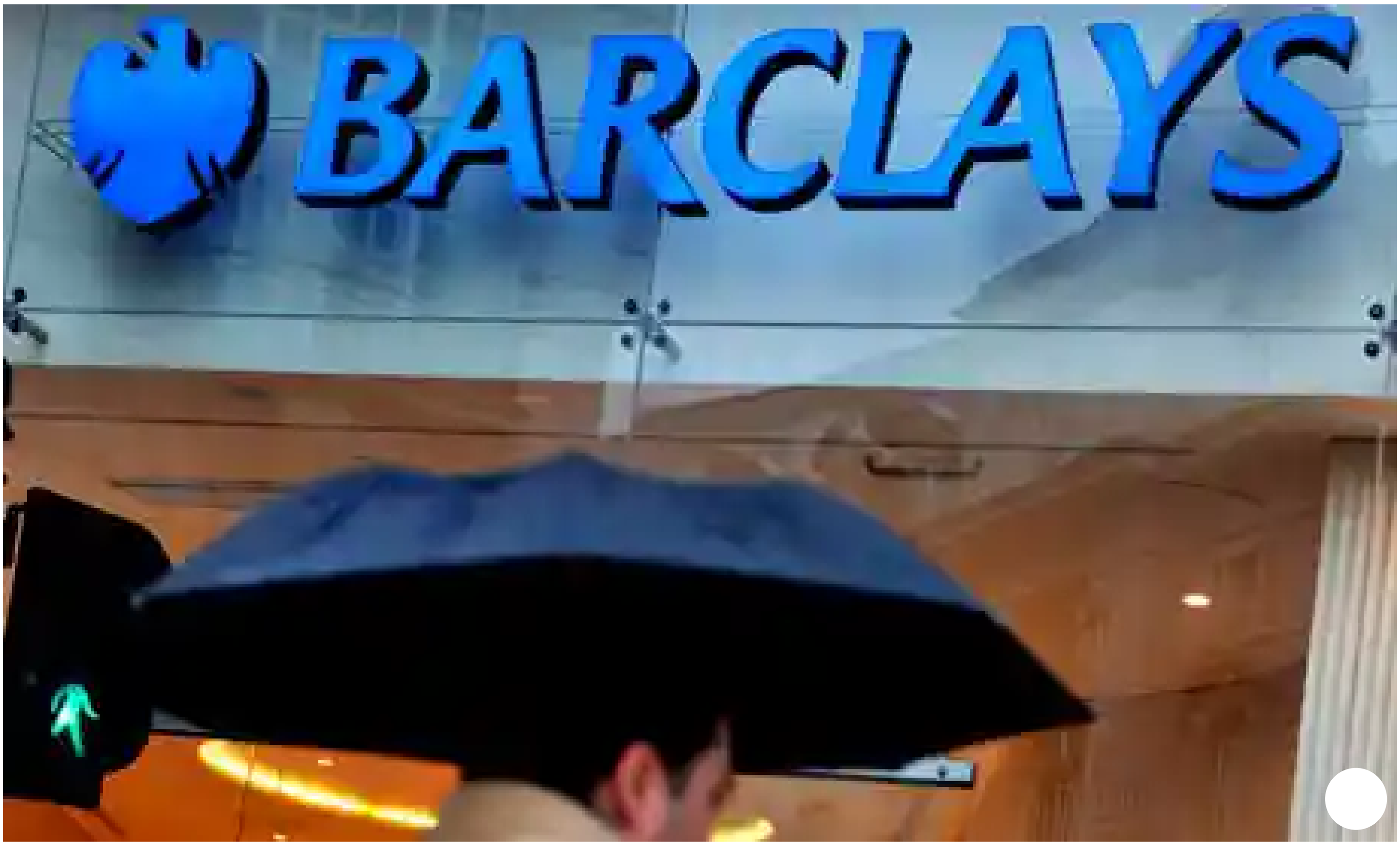

Does Barclays Libor scandal affect me?

Q&A: Have mortgage holders been overcharged, who are the biggest losers and what happens to the £290m in fines?

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Does this affect me?

If you have a buy to let mortgage or a sub-prime loan, then it directly affects you. Ray Boulger of mortgage brokers John Charcol estimates there are between 200,000 and 250,000 mortgages where the interest rate paid is linked to three-month Libor, many of them buy-to-let loans from lenders such as Paragon. A number of borrowers who took out "sub-prime" loans before the credit crunch struck also pay an interest rate determined by Libor.

Typically, the interest rates on these mortgages were set using a formula such as "three-month Libor +1.5%". Every three months, the lender sets the interest for the next three months according to the Libor rate. Even if a mortgage wasn't initially priced at Libor, it is likely to have contained a provision that it would revert to Libor at the end of a particular term, such as a two-year fix.

Libor also influences the setting of interest rates on fixed-rate deals, although only at the margins.

So have I been overcharged interest on my mortgage?

Maybe - and maybe not. Barclays traders were pushing the Libor rate up at one stage (to enhance their profits), which could have pushed mortgage rates higher than they should have been. But the indications are that during the financial crisis, Libor was manipulated downwards. So all those landlords with Libor-linked buy-to-let loans enjoyed interest rates *lower* than they might otherwise have had to pay. "There won't be much business for the ambulance-chasing lawyers in this," said Boulger.

If Libor was pushed downwards, does that mean rates for savers were also artificially depressed?

Most savings rates set by the building societies and banks have little connection with Libor, so small savers are unaffected. But if you are a big institution - such as the treasurer of a local authority or large charity - you tend to deposit your balances into short-term accounts where the interest paid is linked in some way or another to Libor. These deposits would have received a lower rate of interest than they would otherwise have earned. So they are out of pocket - and may now want the banks to repay them.

Are there other losers?

Yes. During the pre-2008 lending spree, many of the mortgages sold by mainstream lenders were packaged up into residential mortgage backed securities (RMBS). These were bonds which paid an interest rate linked to Libor. The sums of money are gigantic - about £360bn in the UK alone in 2008. Again, the holders of these RMBSs will have received lower interest payments than they might otherwise have had.

Will they demand their money back?

Highly likely. Already there is talk of class action suits against the banks which manipulated Libor. Interestingly, since the losers are likely to be big institutions themselves, rather than the man or woman on the street, they will have big pockets to finance legal actions. Expect this to rumble through the courts for years.

Where does that money from the £290m in fines go?

If you are a customer of Barclays, don't expect a cheque. The money from the fine is paid to the Financial Services Authority, which contrary to most people's understanding, is financed not by the taxpayer but by a levy on banks and financial firms. Oddly enough, these firms are likely now to pay a lower levy next year because of the Barclays fine - and that includes the levy on Barclays itself.

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