What is SOFR? LIBOR?

LIBOR (London Interbank Offered Rate), the precursor to SOFR, was the most important benchmark for setting interest rates on loans both commercial and consumer. However, LIBOR was doomed after its involvement in multiple scandals during the 2008 financial crisis.

SOFR (Secured Overnight Financing Rate) is LIBOR's replacement in the United States. SOFR is benchmark financial institutions use to price business and consumer loans. "Overnight Financing" refers to SOFR's robust and transparent method that sets rates for lenders based on rates large financial institutions pay each other for overnight loans. SOFR considers actual lending transactions, making it more reliable than LIBOR and much less likely to be manipulated. In addition, LIBOR was unsecured, so it included a credit risk premium. SOFR is a secured rate, based on transactions involving collateral in the form of Treasuries, so there's no credit risk premium included the rates.

Recently, Fannie Mae and Freddie Mac (home mortgage companies appointed by Congress) have changed their settings (indices) from LIBOR to SOFR settings in market prices under a gold mandate.

Bottom line: as a consumer you probably won't notice a difference.

Check out the articles below for more information:

https://www.forbes.com/advisor/investing/secured-overnight-financing-rate-sofr/

https://www.wallstreetprep.com/knowledge/sofr-secured-overnight-funding-rate/