What the Latest FED Interest Rate Hike Means for Credit Card Users

September 22, 2022 - In case you haven't been paying attention, the FED just raised interest rates again this week. The latest increase was 75 basis points. Translated into English, that amounts to three quarters of a percent. And that's bad news for anyone carrying a balance on their credit cards.

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Just about all credit cards have a variable interest rate associated with them. And that interest rate is directly tied to the prime rate. And the prime interest rate is three percentage points higher than the fed funds rate; which is the interest rate that they just raised. This means that all of these interest rate hikes are passed on directly to credit card balances. But that isn't all of the bad news.

Prior to the lates rate hike, average credit card interest rates were already at an all time high. They were hovering at just above 18%. After this latest hike, they will be just below 19% and the FED has already stated that they aren't don't raising rates this year. There will be at least one more hike and the market is currently predicting two hikes by the end of this year. These will just push credit card interest rates higher.

The effect of all of this is born by consumers. It will take longer to pay off credit card debt, and it will cost more. This is especially true for anyone making minimum payments. The only way to avoid the issue is to pay your credit card bill in full each month; something that's impossible for many Americans.
by Jim Malmberg
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