FED Interest Rate Hike â€“ What It Means to You

December 16, 2015 â€“ The FED just announced a quarter point increase in the federal funds interest rate. It is the first time in roughly a decade that it has announced a rate increase and frankly, itâ€™s an odd time for one. According to the FED, inflation is in check. If so, there is no reason for the increase. But FED Chairwoman Janet Yellen pretty well backed her agency into a corner; announcing earlier this year that she would increase rates by the end of the year. Had there been no announcement today, a lot of economists believe it would have confirmed that the economy isnâ€™t doing well. While all of this may sound like a boring economic policy discussion, the announcement will have real effects on the wallets of everyday consumers. Hereâ€™s what you need to know.

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What is the â€œfederal funds rate?â€•

The federal funds rate is the interest rate that banks charge each other for overnight loans.

Credit cards

If you pay off your credit cards in full every month, then the interest rate hike wonâ€™t impact your credit card payments at all. But since the implementation of Dodd Frank, virtually all credit cards are now adjustable rate. That means that the FED increase will be passed on to you directly if you carry a balance on your cards. The impact of this is that your minimum monthly payment will increase or, if you are paying more than the minimum, the amount of money applied towards the principle balance on your credit cards will go down.

Home mortgages

Surprisingly, the rate increase may not have much impact on home mortgages. Thatâ€™s because there is no direct tie in between the federal funds rate and mortgage interest rates which are normally priced with the 10 year Treasury bond. Thatâ€™s good news for anyone involved in real estate.

Even so based on the FEDâ€™s publicized desire to continue to increase rates over the course of the next year, those considering refinancing existing loans or taking out new loans may want to consider doing so very soon. It is widely believed that mortgage interest rates will begin to rise in the coming months.

Other consumer loans

The cost of other consumer loans will increase as a result of the rate hike. This includes loans for big ticket items like automobiles.

While rates are still very low, that may not remain the case for long. The FED stated that it intends to continue raising rates gradually over the course of the next year. That mean is you have been considering a major purchase, you may want to consider making it sooner rather than later.

An important note here, the increased cost of loans will also mean that you qualify to borrow less money. Thatâ€™s because when lenders go through the approval process, they make sure that you can afford your overall monthly payments, interest and all.

The other types of loans impacted by the increase are home equity lines of credit and student loans.
Business loans

As with consumer loans, the cost of business loans will also increase. This means that businesses will have less money to expand and it could affect the job market by slowing hiring.

Savings account interest rates

You might think that with increased interest rates, youâ€™d also see an increase in the interest that banks are paying to account holders. But that may not be the case. Banks are currently awash in cash so they donâ€™t really need to try to attract new customers with higher interest rates. At some point, this will change. Donâ€™t be surprised to see some internet based banks to strike first here.
byJim Malmberg
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