The Fed Rate Hike Will Hit Borrowers From Credit Cards to Mortgages

September 20, 2026 - The Federal Reserve raised its benchmark interest rate by a quarter percentage point Wednesday, its first increase in more than three years, as persistent inflation outweighed concerns about making already-expensive borrowing even more costly.

The unanimous move raised the federal funds target to 3.75% to 4.00%. Inflation remains well above the Fed's 2% target, while economic growth and employment have remained strong enough to give policymakers room to tighten credit. Fed Chairman Kevin Warsh said inflation has broadened beyond energy and import prices, strengthening the case for action. Reuters reports 16 of 18 Fed policymakers expect at least one more increase this year.
For consumers, the consequences depend heavily on what they are borrowing.

Mortgage rates are not set by the Fed, but they have been moving sharply higher along with longer-term Treasury yields. The average 30-year fixed mortgage reached 6.95% this week, up from 6.76% a week earlier and the highest since January 2025.

On a $500,000, 30-year mortgage, a 6.95% rate produces a monthly principal-and-interest payment of about $3,310. At 6.70%, the payment would be about $3,225. That quarter-point difference costs roughly $85 a month, or more than $30,000 over 30 years if the loan is held to maturity.

Existing homeowners with fixed-rate mortgages are unaffected. The higher rates matter to new buyers, people refinancing and borrowers with adjustable-rate mortgages.

Credit cards react more directly because most carry variable rates tied to the prime rate. If a card issuer passes through the Fed's full quarter-point increase, carrying a constant $10,000 balance would cost about $25 more in interest over a year.

The increase in the required minimum payment would typically be small from one rate hike alone and depends on the card issuer's formula. But the important number is cumulative interest. A borrower already paying a 20% APR is paying roughly $2,000 a year in interest on a $10,000 balance if that balance remains unchanged. A quarter-point increase raises that to roughly $2,025.

Auto loans are less directly connected to Fed policy, but higher market rates ultimately work their way into vehicle financing as well.

A $25,000, five-year auto loan at 7.50% carries a payment of about $501 a month. At 7.75%, it is about $504. Again, one quarter-point move is modest. Several increases, combined with today's already-high vehicle prices and borrowing rates, become considerably more meaningful.

The other side of higher rates is better returns for savers. Money-market accounts, high-yield savings accounts, CDs and short-term Treasury securities can pay more as rates rise, although banks are under no obligation to pass the Fed's full increase along to depositors.

The larger issue for consumers is that Wednesday's increase probably isn't an isolated move.

Fed projections released with the decision show policymakers expect another rate increase before the end of the year. Goldman Sachs now expects that increase at the Fed's October meeting, forecasting another quarter-point hike.

That outcome is not assured. The Fed will get additional inflation and employment data before its next decision. But the argument for another increase remains intact. Minneapolis Fed President Neel Kashkari said Sunday that inflation remains too high even after stripping out food and energy, while the economy continues to show resilience.

For borrowers, that means the direction of travel has changed. After three years without an increase, the Fed has started raising rates again, and its own projections suggest it isn't finished.

by Jim Malmberg

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