THE STEPHENSON National Bank & Trust

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What Do Rising Interest Rates Mean for You?

If you've been keeping up with news stories about the economy lately, you may have heard that the "Fed" has been raising rates, and is likely to do so more often in the future. What does this mean, and how will it impact the average consumer?

Who is "the Fed"?

The Federal Reserve is the central bank of the United States, which means it is owned by private banks and operates independently of the U.S. government. It is led by a Board of Governors who are appointed by the President. The Fed has three mandates: maximize employment, stabilize prices and moderate long-term interest rates. It accomplishes those mandates by raising or lowering the Federal Funds Interest Rate (the basis for every other interest rate out there), which is managed by the Federal Open Market Committee (FOMC). The FOMC meets eight times per year and issues a statement about the general U.S. economy and if the Fed will raise its rate. Yesterday's increase was just the third hike since 2006 (the first was in December 2015, the second in December 2016).

Does the Fed Funds rate impact me?

Yes. Even though consumers do not directly borrow money from the Fed, the banks that provide their car loans and mortgages do. Since the Fed Funds rate is the basis for other rates (by being the cost of what your bank must pay in order to get money) raising and lowering it affects the rates you, the consumer, can get from your bank. So, if you're in the market to buy a house and you hear that the Fed may be raising interest rates soon, you know to act quickly so you can secure a lower interest rate for your mortgage.

So are high rates bad?

No. While low interest rates on large purchases like homes are good for consumers, extended low interest rates (like we've seen over the past 10 years) means that the economy isn't growing very fast and consumers aren't earning much on their savings. When the Fed Funds rate goes up, depositors see increased interest rates on their savings accounts and CDs, so higher rates are a bonus for savers. It's also important to note the Fed raises rates a little at a time (usually only 0.25%) and the higher rates only affect new loans and loans with adjustable rate terms. Higher rates also mean the FOMC sees signs that the economy is getting stronger, which is good for everyone.
If you have any questions about how the Fed raising interest rates will affect your finances, be sure to speak to your bank. They'll be able to offer specific advice according to your accounts and circumstances.