Consumer Tip January 2017: Rising Interest Rates Present Opportunities & Challenges

In December the Federal Reserve raised interest rates for just the second time in the last seven years. While the details of how much and when the Fed changes interest rates are subject to the speculation of economists, one thing is certain: a rise in interest rates has a definite effect on consumers. And, with the Fed signaling its intent to raise rates several more times throughout 2017, consumers should consider the potential impact that a rising interest rate environment can have on their wallets. These tips are intended to help you do just that.

What do rising rates mean in the big picture?
When banks make loans or pay interest for deposits in a savings account, they determine the interest rate by using the Federal Reserve rate as a baseline. Therefore, when the Federal Reserve's interest rates go up or down, the amount that banks charge for a loan or pay on deposits can go up or down as well.

With interest rates at or near 0% over the last several years, those looking to save money have received very little interest for their savings. Meanwhile, those who have borrowed money have been able to do so relatively inexpensively.

Rising rates will make it more attractive to save money because banks will pay a higher interest rate on savings deposits (although rates will likely stay at historic lows in the short term). Those looking to borrow money should expect to pay more than they have in recent history. Therefore, if you're looking at financing consumer purchases like automobiles, furniture or appliances, you'll want to move soon to get ahead of additional interest rate increases.

How do rising rates affect my credit card?
For many credit cards, the interest you pay on balances carried over from month to month is variable. This means that, when the Federal Reserve rates rise, the amount of interest charged by your credit card company can rise along with them.

For this reason, paying off your credit card debt is the best plan of action to avoid significant impact from rising rates.

However, if paying off your credit card is a longer-term goal, then now is the time to look for a low-interest or fixed-rate option to transfer your balances elsewhere. Contact your local community bank to ask about options to transfer all of your variable rate balances to a fixed rate loan. Then, you can begin the process of paying down balances without worrying about increases in interest charged by your credit card company.

Looking to sell or purchase a home?
If you are interested in selling your home, rising rates might benefit you in the short term. If consumers are anticipating increasing mortgage costs, then they will be motivated to purchase your home sooner rather than later in the year. The longer you wait to put your home on the market, however, the more likely your pool of potential buyers will be affected by higher loan costs, potentially affecting what they'll be willing to pay for your home.

If you're buying a home, the same rules are in play. The sooner you buy a home in the calendar year, the less you're likely to pay in interest.

Finally, if you haven't refinanced your home during the extended period of low interest rates, now may be the last chance to capitalize on the historic lows. This is particularly important if you have a balloon or variable rate mortgage which is subject to increasing rates to follow the Federal Reserve.

What about student loans?
Federal student loans rates are fixed so, if you have a federal loan, you won't be affected by rising rates. However, if you have a private student loan, you should contact your lender to find out whether your rate is fixed or variable.

The Federal Reserve's increase in rates is not anticipated to be sudden or dramatic so, if you find you're in a variable interest rate private loan, you should have plenty of time to shop some options for refinancing student debt into a fixed rate loan.

While rising interest rates signal an overall positive turn in the economy, they do have definite impacts on consumers. For consumers who have entered the workforce in the last seven years, the shift to a rising rate environment can be hard to understand. But, with a little foresight and planning, you'll be positioned to insulate yourself from the hardest impacts of rising rates. And, hopefully, you'll be able to enjoy some of their benefits with greater interest on your hard earned savings.

Contact: Pennsylvania Association of Community Bankers 717.231.7447 or www.pacb.org