BUSINESS

Consumers told, 'Don't panic'

Economists say give unknowns time to work their way through system

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U.S. creditworthiness has taken a ding – its first ever - but economists said it's not time for consumer panic.

Although Standard & Poor's downgraded U.S. debt, as well as the credit ratings of mortgage lenders Fannie Mae and Freddie Mac and other agencies linked to long-term U.S. debt, two other rating agencies have not.

In the face of a gyrating stock market, uncertainty about interest rates and the unknown effects of U.S. debt rated at AA+ rather than AAA, it's time to take stock of the situation and give the unknowns time to work their way through the system, economists said.

"I think that it will take time to tell" how consumers will be affected, said Robert Hoak, TD Bank president of South Carolina and the Wilmington, N.C., area.

"You have one rating agency out of three" downgrading the debt, apparently more because of the confusion and disarray of Congress than because of the creditworthiness of the country, he said.

"Will people see this in terms of higher borrowing costs? Perhaps," said Jay Bryson, global economist with Wells Fargo Securities. "But the rates won't go up a great deal."

He said he expects that if rates increase, it would be more like a 13 percent credit card rate increasing by 13.25 to 13.5. Thirty-year fixed mortgage rates, at 4 3/8 percent last week, could rise to 4.5 percent.

"I don't think we're talking about cataclysmic results," he said. That would have been more likely if the United States had defaulted on its debt, he said.

South Carolina, which has had a debt rating of AA+ from S&P since July 2005 but has top ratings by the nation's two other main rating agencies, enjoys the best rate when it borrows funds because of the blended rates. Curtis Loftis, South Carolina treasurer, said the state's blended rate is within the top 15 nationwide.

Mortgage rates are often directly tied to the yields, or interest rates, on Treasury bonds. This makes home loans the most vulnerable to the downgrade of U.S. debt. However, so far there's been little evidence that investors view U.S. Treasurys as risky investments.

It is also likely that credit card and home equity loan rates will remain stable, as they're based on the prime rate. The prime is based on a Federal Reserve rate the Fed said Tuesday it expects to remain near zero through mid-2013.