Interest rate hike means consumers will pay more

Fed move likely to have ripple effect

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The Federal Reserve's decision Wednesday to lift its benchmark short-term interest rate by a quarter percentage point is likely to have a domino effect across the economy as it gradually pushes up rates for everything from mortgages and credit card rates to small business loans.

The Fed also forecast slightly faster increases the next few years amid the prospect of a big government stimulus, with three similar hikes next year. And there are a couple of wild cards that could have a bigger effect on borrowing costs than the Fed.

President-elect Donald Trump's plan to cut taxes and spend up to $1 trillion to upgrade infrastructure, combined with forecasts of rising oil prices, already has driven up inflation expectations and long-term bond yields in recent weeks. They could play a big role next year.

Still, the Fed's decision to lift the federal funds rate, which is what banks charge each other for overnight loans, could have at least some effects on consumers:

▶ **Mortgages:** Thirty-year fixed mortgage rates already have climbed to above 4% since late October, costing the holder of a $200,000 mortgage about $75 more a month. That's because 10-year Treasury bond yields have jumped about a percentage point since September, partly on Trump's fiscal stimulus plan and faster inflation forecasts.

The Fed's key short-term rate affects mortgages and other long-term rates only indirectly. Wednesday's anticipated hike was already priced into such mortgage rates, but three more quarter-point rate bumps next year could lift mortgage rates by a total of three-eighths of a point, says Greg McBride, chief economist of Bankrate.com. That would mean another $44 a month on a $200,000 mortgage.



MICHAEL DWYER, AP

Fed rate hikes may have modest effect on mortgage rates.

On the margins, that could discourage a small portion of home purchases, says Steve Rick, chief economist of CUNA Mutual Group. Yet that effect could be more than offset by a tight labor market and faster-growing economy that's pushing up average wage gains, allowing homebuyers to easily afford the added cost, Canally says.

Adjustable-rate mortgages, by contrast, typically are modified annually and likely would be affected more significantly, with monthly payments rising twice as much over the next year.

▶ **Auto loans:** Typical five-year auto loans will be more directly influenced by a quarter point increase in the Fed's key short-term rate, with a 4.25% car loan rate rising by a similar quarter point, or $3 a month, McBride says. Wednesday's move and another three similar rate increases next year would increase the monthly payment for a new $25,000 car by a total $12.

"Interest rates are going to be a non-issue," he says.

And with auto sales expected to moderate after peaking this year, manufacturers are likely to roll out other incentives, such as lower prices or rebates that temper costs, Canally says.

▶ **Credit cards, lines of credit:** Revolving loans with variable rates, such as credit cards and home equity lines of credit, will feel the most immediate impact from an increase in the Fed's key short-term rate. Average credit card rates are about 16.25%, while home equity lines about 4.75%, according to Bankrate.com. Banks should pass along quarter-point increases in the federal funds rate to those consumer rates within weeks.

▶ **Bank savings rates:** Since banks will be able to charge a bit more for loans, they'll have a little more leeway to pay higher interest rates on customer deposits. But don't expect a fast or an equivalent rise in your savings accounts or CD rate. Such rates may rise only after a lag of six months or more after a Fed move, McBride says. And an increase of a percentage point in the fed funds rate by late next year may lead to a rise of just 30 or 35 basis points in savings and CD rates.