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What the Fed's Interest Rate Cut Means for You

This week, as we continue to discuss the impacts of the policies enacted to offset the turbulence of the COVID-19 pandemic, we're going to dive deeper into how the Federal Reserve's interest rate cuts effect consumers.

On March 3, 2020, the Federal Reserve cut its short-term benchmark rate by a half percentage point. The timing of this rate cut, which occurred in between the Fed's scheduled policy meeting, had not occurred since the 2008 financial crisis. The cut lowered the federal-funds rate to a range between 1% and 1.25%.

Last year, the Fed cut rates three times to keep the U.S. economy moving amid slowing global growth and trade tensions. This year, disruptions from the coronavirus pandemic have unsettled global financial markets, with policymakers managing the economic fallout from the spread of the virus.

Interest rates affect the cost of borrowing, so falling interest rates can ripple through the cost of mortgages, the interest earned on savings accounts and more. In this week's article, we will observe how the Fed's interest rate cuts apply to consumers.

Mortgages

In a year of financial firsts, this one stands out: mortgage rates have fallen below the 3% mark. The average rate on a 30-year fixed mortgage fell to 2.98%, mortgage-finance giant Freddie Mac said July 16, 2020, its lowest level in almost 50 years of record keeping. It is the third consecutive week and the seventh time this year that rates on America's most popular home loan have hit a fresh low.

The coronavirus pandemic has upended markets around the world—sending stocks on a wild ride and yields on U.S. government debt to record lows—but its effect on the 30-year mortgage is especially significant. Consider its history: in the early

1980s, it peaked above 18% after the Federal Reserve raised rates to fight runaway inflation. The Fed's previous rate cuts sparked a spending streak among U.S. households, including boosting the mortgage market to its highest level since the financial crisis.

Auto Loans

Auto loans have fixed interest rates, which are pegged to Treasury yields, but the falling interest rates won't predict what dealers and auto-lenders can charge for your auto loan. At start of August, the average rate on a five-year new car loan was 4.25%, according to Bankrate.com.

If you're considering buying a new car or trading up, pay attention to car prices and your existing debt load. Many Americans are now taking out auto loans that last longer than six years, according to Experian PLC, and buying new cars with negative equity.

High-Yield Savings Accounts & CDs

The interest rates offered on savings accounts and many certificates of deposit move with the federal-funds rate.

According to the FDIC, the average annual percentage yield on a one-year CD is 0.48%, and firms are continuing to cut rates on high-yield offerings. Goldman Sachs Group Inc.'s Marcus account has dropped to one percent, and other institutions have also lowered the rates on their saving products.

Credit cards

A decline in interest rates can sometimes affect the average credit card annual percentage rate, or APR, which is pegged to the prime rate.

However, The Wall Street Journal found that even as interest rates fall, some credit card rates are going up. This is because popular, generous rewards and points programs are costing banks more, so many are raising rates to cover such costs.

According to WalletHub's January report of more than 1,000 credit-card offers, the average APR for those with good credit at the end of 2019 was 20.68%.

Student Loans

To provide relief to student loan borrowers during the COVID-19 national emergency, interest is temporarily set at 0% on federal student loans. In addition, federal student loan borrowers are automatically being placed in an administrative forbearance, which allows you to temporarily stop making your monthly loan payments. On Saturday, August 8, 2020, President Trump signed a memorandum extending the 0% interest and suspension of payments through the end of the year.

The Executive Order

Among the student loan memorandum were other executive actions signed by Trump. The first decreases the weekly unemployment benefits to $400, with 25% of that funded by the states. The second defers the payment of pay-roll tax through the end of 2020. Finally, Trump signed an executive order that says federal policy is to minimize evictions during the pandemic and that officials should identify statutory ways to help homeowners and renters. There are many stipulations among the actions, with deliberations and ratifications on the way. To stay up to date on information and news regarding COVID policy and market updates, visit our website www.whzwealth.com/covid19-resources and follow us on Facebook and LinkedIn!

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