Interest Rates are Rising – Now What?

According to Investopedia, "The term Prime Rate refers to the interest rate that commercial banks charge their most creditworthy customers." The federal funds overnight rate, set by the Federal Reserve, serves as the basis for Prime Rate, which is the starting point for other interest rates. Prime Rate is the most commonly used benchmark for credit unions, banks, and other lenders when setting their interest rates on various loan products. Many variable-rate loans, like home equity line of credit loans and credit cards, offer interest rates that are directly tied to Prime Rate. When Prime Rate changes, these variable-rate loans follow suit.

Prime Rate has risen from 3.25% in January to 7.00% in November, with another rate increase expected in December. Follow the tips below to help combat rising loan rates and maximize the return on your savings.

Refinance variable-rate debt with a fixed-rate loan. Yes, read that again. Refinance variable-rate debt with a fixed-rate loan. As mentioned above, many variable-rate loans are directly tied to Prime Rate. If you have a home equity line of credit, the rate is likely much higher now than it was earlier in the year. The same goes for your variable-rate credit cards. And, increased rates come with increased monthly payments.

Consider our fixed-rate home equity loan to refinance your current home equity line of credit (with us or another lender) or to consolidate your credit card debt. It offers a fixed rate and monthly payments that do not change during the entire life of the loan. It's also a great solution for larger, one-time expenses like home improvements, furniture, appliances, travel, and medical costs.

Another option for your variable-rate credit card debt is to transfer the balances to our Platinum Visa. It offers two features that are practically unheard of in the industry – A fixed rate and a late payment grace period. Other features include no annual fee, no balance transfer fee, and a reward points program.

Ladder short-term investments. Increases to Prime Rate typically result in increases to deposit product rates, too, like CDs. In the basic sense, you put money into CDs for a specific period of time, at a rate that does not change during that time (even if Prime Rate changes). CDs may offer higher rates than regular savings accounts because the funds are locked-up during the term of the CD, usually between 12-60 months. And, the longer the CD term, the higher the interest rate. But, if the funds are withdrawn prior to the maturity date of the CD, a penalty is assessed. All in all, it's a nice way to earn guaranteed interest on a short-term investment.

However, you may be reluctant to lock up money with CDs in a rising-rate environment. That's where laddering comes in. Laddering occurs when a series of CDs are opened and set to mature at regular intervals, like every 12 months. As each CD matures, you reinvest the proceeds into a new CD, with a higher interest rate. Note that this only works in a rising-rate environment. But, if interest rates should fall, you can still enjoy the benefits of higher interest rates until your CDs mature.

The bottom line. We don’t have a crystal ball, so it’s difficult to predict how fast rates will increase and how far they’ll climb. But, it’s prudent to pay attention to Prime Rate, so you’re not missing out on any valuable opportunities to give your wallet a break or make the most with your savings in a rising rate environment.