

Surprise Interest Rate Cut Portends Both Good and Bad for Consumers

The Federal Reserve recently lowered the federal funds rate to 1 percent, dropping it by half a point. The rate cut, which lowered the interest rate to rock bottom levels last reached in 2004, is intended to encourage consumer spending, strengthen the economy, and improve international confidence in the U.S.s financial markets. Cutting the federal funds rate was the most recent of several steps the Fed and the Treasury have taken to restore the economy to moderate growth and alleviate the credit crunch.

Only three weeks beforehand, the Fed cut rates by half a point in a move that took analysts by surprise. Several earlier rate cuts had already dropped the federal funds rate from its high of 5.25 percent, which it reached in late 2006 and early 2007. The latest rate cut was not a surprise to financial analysts, but they were not certain how much farther the Fed would be willing to go in trimming interest rates that were already close to the bottom. Borrowers should benefit from the rate cut. Consumer interest rates on credit cards, auto loans, mortgages, and other types of debt are determined independently by lending companies, but the Fed's rates strongly influence lender set interest rates, leading to a trickle down effect when the Fed lowers rates. Mortgage rates are particularly sensitive. They tend to rise or fall in tandem with Fed managed bank rates, and are therefore in a prime position to benefit from rate cuts. The Fed's most recent rate cut also means more affordable rates for consumers who have variable rate credit cards, adjustable rate mortgages, home equity credit lines, and other variable lines of credit.

The downside is that investments whose interest rates are based on federal interest rates will also stay low. This will likely include bank checking and savings accounts and certificates of deposit (CDs). If you are considering opening a new account that pays interest, it is essential to consider as many options as possible and compare interest rates and fees before choosing an account. Related information [You can view it at](#) <http://www.seoboot.net/finance/applying-for-a-home-mortgage.html> " title="Home loan, Mortgage rates">Mortgage loan -- [Mortgage payment calculator](#) -- [Mortgage loans](#) -- [Mortgage refinancing](#) -- [Equity loans](#) --

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