How the fed’s rate hike will impact you

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Federal Reserve Board Chairwoman Janet Yellen Getty Images

Bad news for those with credit card debt: The Federal Reserve hiked its key rate on Wednesday by a quarter percentage point and, as a result, your own interest rates could rise almost immediately.

The Fed raised the rate for federal funds by a quarter percentage point, to 0.75% to 1% at the end of its two-day meeting on Wednesday, and signaled two further rates rises in 2017. In other words, the Fed announced an increase in how much banks will be charged to borrow money from Federal Reserve banks. (The Fed raises and lowers interest rates in an attempt to control inflation.)

That increase will most likely eventually be passed on to consumers, said Sean McQuay, a credit card expert at the personal finance website NerdWallet. Many households with credit card debt — the average household carrying credit card debt has more than $16,000 — will likely take a hit.

Here's how the latest Fed rate increase could impact your credit cards and bank accounts.

Credit cards

Because a rise in the federal funds rate means banks will likely pay more to borrow from the Federal Reserve, they may pass that cost on to consumers.

Credit card interest rates are variable (banks and credit card companies should state that their rates are variable in the literature customers receive to learn about their cards), and they are tied to the prime rate, an index a few percentage points above the federal funds rate. It is a benchmark that banks use to set home equity lines of credit and credit card rates; as federal funds rates rise, the prime rate does, too.

As a result, credit card holders are likely to see their interest rates rise, and that will happen soon, said Greg McBride, the chief financial analyst at the personal finance company Bankrate, told MarketWatch.

When the Fed raised the rate in 2015 — the first rate hike since 2006 — it only took about a month or two for the majority of banks that the personal finance website NerdWallet works with to change the variable APRs on their credit cards, McQuay said. They included both major banks and lesser-known ones.

What's more: Banks are under no obligation to let their customers know they are raising their credit card rates when the Fed announces an interest-rate increase, so consumers should check on their own to find out if their rates are rising, McQuay said.

The average household now pays a total of $1,292 in credit card interest per year, according to NerdWallet's research. Now that the Federal Reserve increased its rates as analysts expected, the total will rise to $1,309, NerdWallet found. Although that amount won't "break the bank," McQuay said, consumers who have debt should expect this trend of rising interest rates to continue.

People who currently have credit card debt should consider trying to refinance or consolidate it now, or find a lower-interest rate card they can transfer their existing balances to, said Rachel Podnos, an attorney and financial planner based in Washington, D.C., told MarketWatch.

Many balance transfer cards have 0% introductory interest rates, McQuay said. Banks and credit card companies will likely keep those rates at 0% rather than raise them to slightly over 0%, because offering that 0% introductory rate is helpful for marketing. However, because the banks will be paying more to borrow, they may eventually shorten the introductory period if they are unable to afford that 0% for the long periods of time they offer now. As a result, securing one of these cards sooner rather than later would be a good idea.

Bank accounts

For savers, a rise in Federal Reserve interest rates is good news, Podnos said.

Savings account rates will likely increase slightly, which should help consumers, especially since interest rates on savings accounts are at historic lows. (Although consumers shouldn't expect those rates to rise much, McBride said. One important caveat: Banks will likely have to collect extra income from borrowers before being able to pass those funds onto the savers, he said.)

Personal finance sites Bankrate.com and NerdWallet compile lists of the highest-yielding savings accounts. Online-only banks often offer accounts with higher yields than traditional banks do, as those lists

Consumers may be missing out on by using a low-yield savings account, a recent NerdWallet survey found. A savings account with the highest yield advertised (with a rate of 1.1%) pays $274 more per year than a low-interest account (0.01%) on savings of $25,000, it found.

That said, even the highest-yielding accounts currently don't pay consumers enough to even offset the rate of inflation; so while consumers may want to put easily-accessible savings in a bank account, they should also make sure to diversify by investing instead of waiting for money to lose value, McQuay added.

He also suggested checking with credit unions, which sometimes have higher-yielding savings accounts than banks offer; they may even offer higher yields in person than they advertise online, he said.

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