**Transcript**

# How Changing Interest Rates Affect You

The Federal Reserve will encourage interest rates to rise and fall in order to stabilize prices, create jobs and keep the economy secure.

But how much do interest rates change as a result of the Fed's actions and how might this affect you?

When the Fed encourages interest rates to rise and fall- this will affect the interest rates that banks and other lenders charge consumers.

Typically, these changes tend to be small, and they happen slowly over time. Usually they'll only shift by about 1 percentage point over the course of a year if the Fed is increasing interest rates.

However, in times of financial crisis, they may change more quickly.

But, to put these changes in perspective--over the past twenty years, the average interest rates on most consumer loans have only fluctuated by about 6 percentage points overall.

It's worth noting, though, that all interest rates won't necessarily rise or fall the same amount at the same time because there are other market factors that influence interest rates as well. For example: some interest rates- like fixed interest rates for long term loans can change simply in anticipation of what people think the economy or the Fed might do next, but these changes tend to be small and gradual as well.

The main point is that most consumer interest rates have a tendency to trend in similar directions based on the actions of the Fed.

Still, even a small change in interest rates can make a big difference to your budget if you're looking to borrow a lot of money--

For example, if you want to buy a house and need to borrow $150,000.

[See home with a $150,000 mortgage that is specifically a 30-year fixed rate mortgage.]

In this case, the difference between a 4% interest rate and a 5% interest rate could be an additional $90 a month on a 30 year fixed rate mortgage. Over the life of the loan—that's potentially $32,000 more you'd have to pay.

[visual showing all calculations very small, but focusing on $90 more per month and $32,000 more over the life of the loan

150K 30yr fixed @4%

716/mo 257,804/ life

150K 30yr fixed @5%

805/mo 289,884/ life]

So if you're shopping for a home or car in the near future and are considering taking out a large loan, keep in mind that the rate you're offered today, may be different from the rate you're offered 3 months from now.

Credit cards can also be affected by interest rate changes.

For example, many credit cards have a variable interest rate that’s linked to a prime rate –

Now, you may have heard of the prime rate - this is the base rate that banks use to calculate interest rates for a lot of different loans and it’s generally linked to a target interest rate that is set by the Fed.

As the prime rate increases or decreases, the rate on a variable interest rate credit card will periodically increase or decrease as well, which means that changes to the fed's target rate can have a direct affect on the interest rate of your credit card.

This can have a significant impact on your finances if you’re carrying a large balance on your card.

Changes in interest rates can also affect the cost of student loans, auto loans, and even how much you earn on your savings.

Of course, the Fed isn’t the only factor that will affect the interest rate on any loan you might be offered. There are other factors, like your credit history, which can also have a large impact on the interest rate you are offered.

Interest rates rise and fall as the Federal Reserve works to keep the economy secure—but they tend to do so gradually. Paying attention to when these rates might change can help you make more informed financial

decisions.