

Rate-hike winners and losers

WASHINGTON -- Aug. 9, 2006 -- This time there was some drama over what the Federal Reserve's Open Market Committee would do.

In the end, they decided to stand pat, a decision that creates winners and losers.

Here is a rundown of how different types of borrowers and savers will be affected:

Adjustable-rate mortgage holder or shopper: Winner

Rates on adjustable-rate mortgages, or ARMs, had been rising as an indirect consequence of the Fed's rate increases. Now that the Fed has stopped or at least paused, rates on ARMs are likely to follow suit. If your ARM adjusts every six or 12 months, the rate almost certainly will rise when the adjustment period arrives, but not as much as it otherwise would have. If you recently got a hybrid loan such as a 5/1 ARM, in which the initial rate lasts five years, your rate won't go up immediately.

Fixed-rate mortgage shopper: Winner (possibly)

If you already have a fixed-rate mortgage, the Federal Reserve's decision won't affect your monthly house payment. If you don't have a fixed-rate mortgage yet and you're shopping for one, you're in the middle of a waiting game. It's too soon to know how the Fed's pause will affect long-term fixed-rate mortgages. Rates might hold steady, following the Fed's lead. But if investors conclude that the central bank isn't zealous in fighting inflation, long-term rates could rise in the coming weeks and months.

Home equity line of credit borrower: Winner

Home equity lines of credit, or HELOCs, feature variable rates that move up and down roughly with the prime rate. The prime rate will remain 8.25 percent, so your HELOC rate is likely to remain unchanged, too.

Home equity loan shopper: Winner

Homeowners who already have home equity loans aren't affected either way, because these loans have fixed rates. Home equity loan rates have been rising gradually this year. There is no guarantee that they will stop rising, but it's the most likely outcome.

Certificate of deposit investor: Loser

We knew the Fed couldn't keep going forever. Whether this latest Fed action represents a pause in rate hikes or an all-out end to the trend, it doesn't necessarily mean that CD yields on shorter-term maturities will stop dead in their tracks. The need for deposits could spur some institutions to continue offering attractive yields. But more likely, we'll see banks pushing consumers toward longer maturities with better yields on the long end of the yield curve and skimpier returns on the short end.

The average yield on a six-month CD is at 3.57 percent, a hefty 10 basis points above its mid-July average. Today's average yield for a five-year CD is 4.3 percent, an increase of only 2 basis points since mid-July. In general, expect that scenario to reverse with longer-term CDs seeing heartier gains while the red-hot shorter-term sector cools off considerably.

Also of interest, as surveyed by Bankrate.com, the average yield on a three-month CD is 2.87 percent and the average yield for a one-year CD is 3.83 percent.

For the immediate future, CD buyers may want to stick with short maturities. But keep an eye on high-yields that are offered in your neighborhood or on Bankrate's 100 highest yield page to find the best returns across all maturities from around the nation. You might find some

long-term CDs at 6 percent or better that are worth locking up.

Auto loan shopper: Winner

New-car loan rates have been inching up in the past month, but with incentives and manufacturer rebates, shoppers can still make some deals.

New-car rates for five-year loans have increased 0.10 percent to 7.98 percent since the Fed meeting in June, a response to that rate-hike raise. The average interest rate on a 36-month used-car loan has declined since that meeting and it's been holding steady at 8.91 percent. With the Fed holding the prime rate at 8.25 percent, car-loan rates should hold their ground, too.

Since fall is traditionally a peak car-selling season, car buyers are likely to find deals on last-year's models or be able to take advantage of the millions of dollars in rebates most manufacturers are offering.

Credit card debtor: Winner

With the Fed holding the prime-rate line, credit card holders should tackle their debt.

If you hold a variable-rate card, there's a good chance your rate will remain the same for a while. The average standard variable credit card rate stands at 14.72 percent, up nearly 0.50 percent since the June Fed rate hike.

The average rate for standard fixed-rate cards has been sitting at 13.08 percent since March and will probably stay there.

This may be a good time to look at switching from a variable-rate card to a fixed-rate card. If you do, be sure you transfer your balance to the new card carefully to avoid fees.

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