Welcome to the SeaComm Federal Credit Union podcast. Your guide to financial information and what's going on at your credit union!

You may have heard the Federal Reserve is raising interest rates to try to control inflation. So, what is the Federal Reserve, how do they hope to accomplish this goal and how will it affect you?

The Federal Reserve (more commonly called, the Fed) is the central bank for the United States. The Fed is an independent body and is not tied to any administration or partisan agenda. The Fed uses monetary policy to try to achieve both maximum employment and stable prices. Monetary policy affects short-term interest rates, which in turn affect long-term interest rates, stock prices, the value of the dollar, and other assets. By changing monetary policy, the Fed can affect spending, investment, production, employment, and inflation. When the Fed raises the federal funds target rate, the goal is to increase the cost of credit throughout the economy. Higher interest rates make loans more expensive for both businesses and consumers, and everyone ends up spending more on interest payments.

Those who can't or don't want to afford the higher payments postpone projects that involve financing. It simultaneously encourages people to save money to earn higher interest payments. This reduces the supply of money in circulation, which tends to lower inflation and moderate economic activity to cool off the economy. The rate has been increased four times in a row, with the last two each being ¾ of a percent or 75 basis points.

Now, raising the Fed rate means that loan rates will rise as well, so how would that affect… say a mortgage? Well, take a family shopping around for a $100,000 30-year, fixed-rate mortgage. If financial Institutions were offering them an interest rate of 4.5%, the total lifetime cost of the mortgage would be over $182,000 with more than $82,000 of that accounting for interest charges. Monthly payments would clock in at about $506.

Now, let's say the Fed raised interest rates by 1% before the family got a loan, and the interest rate for a $100,000 home mortgage loan rose to 5.5%. Over the 30-year life of the loan, the family would pay a total of nearly $205,000, with interest charges accounting for almost $105,000 of that amount. Their monthly mortgage payment would be approximately $567.

In response to the increase, the family in this example might delay purchasing a home, or decide on one that requires a smaller mortgage, to minimize the size of their monthly payment.

This simplified example shows how the Fed reduces the amount of money in the economy when it raises rates. Besides mortgages, rising interest rates impact the stock and bond markets, credit cards, personal loans, student loans, auto loans and business loans.

Now, there is probably nothing the average person can do to change the interest moves the Fed makes, however, by keeping track of your credit report and maximizing your credit score, you can keep your interest rates on loans as low as possible.

If you need help with this, take a look at Greenpath Financial Counseling Services, a resource offered to SeaComm members free of charge. GreenPath's NFCC-certified credit counselors can walk you through a free review of your credit report. They'll explain how to read the report and how credit scoring works, and answer your questions. They can also help you make a plan for managing your credit score to support your goals.

You can obtain one free credit report per year from each of the three credit bureaus — Experian, Equifax and Trans Union. Access your free reports at annualcreditreport.com. The reports are free, but expect to pay about $5 if you want to see your credit score.

Learn more on our web page on the resource tab. Just click on tools. Or you can call Greenpath directly at 877-337-3399.

That's it for this edition of the SeaComm Federal Credit Union podcast. Thanks for joining us!