S&T Financial Services

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What Lower Interest Rates Could Mean for Your Money

As inflation drifts closer to a normal range by historical economic measures, investors are closely watching the Federal Reserve to gauge their future plans for lowering interest rates. The Fed – and its changes to monetary policy – has a direct impact on the markets and economy, which may have you wondering what lower rates could mean for your wallet. Here are some factors to consider:

Your existing debt may be more manageable. Rate cuts by the Federal Reserve may cause interest rates on credit cards, home mortgages, home equity loans or lines of credit and business loans to go down. Variable or adjustable rates typically fall in this category. Fixed rate debt, however, will not budge. Review the terms of your debt to determine if you benefit from the reduction in interest rates.

Refinancing may be worthwhile. In the wake of an interest rate cut, it may be a good time to refinance a high-interest fixed rate loan. Student loans and business loans are top prospects to consider. Home mortgages may also be eligible, although if you bought your property when interest rates were very low, it likely makes sense to keep your current loan. Even as rates come down, they may be higher than the rate at which you financed your loan, so it is important to run the numbers to determine whether it makes sense to refinance. Generally speaking, refinancing at a lower interest rate is most beneficial for large loans with a ten plus (10+) year repayment period. Savings diminish when the repayment period of your refinanced loan extends beyond the length remaining on your existing loan. Likewise, accelerating your repayment schedule can cut interest costs, but can result in higher payments.

Borrowing can be more affordable. Low interest rates are especially desirable when you need to borrow money to make a large purchase. Young wage earners with long careers ahead of them can benefit by locking in low interest rates to purchase a first home, a new car or appliances. Businesses can invest in facilities or equipment at a lower rate. Adjustable-rate loans tend to be cheaper than fixed options, but they do carry more risk as interest rates may rise in the future. If you have been considering a large expenditure, work with your advisor to determine if interest rates are at an advantageous level for borrowing.

Diversifying your savings becomes more important. When interest rates fall, the rates on traditional savings accounts and certificates of deposit tend to follow suit, and therefore, may not deliver as much in returns. You may feel less motivated to save when interest earnings are low, or may feel like you're missing out on an opportunity to maximize your savings potential. The practice of setting aside money for the future is still important for your financial security and there are other ways to save in a low-rate environment. Consider ways to diversify your savings with investment options that tend to be less affected by lower interest rates, such as stocks and bonds [1].

Financial planning can help you stay on track. You can't control interest rates, but you can control how you manage your finances. Make it a priority to create a plan for how to achieve your biggest financial goals. With sound advice and strategic saving and investing, you can make the most of any market.

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[1] Ameriprise Financial: "What interest rate cuts may mean for investors" October 2024. Compiled by Brian Erickson, Fixed Income Strategist- Ameriprise Financial.

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