As Fed raises rates, what do consumers need to know

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Getting Started

CJ GUNTHER/EPA

At long last, the Federal Reserve has raised its benchmark interest rate. But the impact on savings accounts and loans won't be big, at least for now.

With the December hike, the federal funds rate, which has hovered near zero for the past six years, increased by a quarter of a percentage point.

"We're talking about a baby step," said Greg McBride, chief financial analyst at Bankrate.com.

Bigger changes could come in 2016, though, if the Fed continues to raise rates, as many expect. With that in mind, here is what savers and borrowers should know and do now.

Cash deposits: Most savings accounts pay a fraction of a percent in interest, and that's unlikely to change soon, McBride said. "Banks don't need to attract more deposits," he said. And after years of earning low returns on loans, "banks are more likely to raise rates on loans first, not on deposits," he said.

To get a fatter savings yield, consider online banks, credit unions and community banks, many of which offer high-yield savings accounts that pay about 1 percent today.

Credit cards: Credit card rates tend to follow Fed moves almost immediately, As such, expect to see a higher rate on your card within one to two billing cycles, said Jill Gonzalez, an analyst at WalletHub.com.

She suggested that consumers start to tackle card balances now, especially before any further rate hikes. For help, look for cards with zero percent balance-transfer offers.

Student loans: If you have a federal student loan, breathe easy. Your interest rate is fixed and will not change.

With private student loans, your rate will go up within the next billing cycle or so if you have a variable-rate loan, said Mark Kantrowitz, a student loan expert.

The good news is that the jump in your monthly payment will be minimal. A borrower with a $10,000 loan and a 5 percent interest rate will pay about $1.25 more per month after the Fed's quarter-point hike. And variable-rate private student loans are still about three to four percentage points cheaper than fixed-rate equivalents, Kantrowitz said.

"If you intend to pay off the loan in the next few years, you're probably better off with a variable rate," he said.

But next year, new borrowers applying for student loans, whether federal or private, should expect higher costs.

The rates on federal student loans, for example, reset every July 1, and additional Fed rate hikes could help nudge the cost of these loans higher next summer, Kantrowitz said.

Home loans: As with student loans, if you have a fixed-rate mortgage, you don't have to worry about higher monthly payments.

A borrower with an adjustable-rate mortgage will see payments increase almost immediately if he is out of the temporary fixed-rate period.

If you plan to stay in your house for several more years, now may be the time to refinance into a fixed-rate loan. If not, do the math to see if it makes sense to hold on to your ARM.

The average rate on a 5/1 ARM (meaning a variable-rate loan with a five-year fixed-rate period) is 3.19 percent today, according to HSH.com, which tracks mortgage trends. A 30-year fixed-rate loan charges 4.02 percent.