



Fed Funds Impact

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Whenever the Federal Reserve Board meets to decide whether to cut or raise the fed funds rate, the breathless coverage might make you believe that an earthquake is about to rumble through the economy. But what, exactly, is the impact of the recent (September 17) 0.25% rate cut, and the expected additional cut sometime later this year?

The federal funds rate doesn't affect any of us directly. It is the interest rate that banks charge each other for overnight loans—loans backstopped by the central bank. When that interest rate goes down, banks are able to borrow, and lend, at lower rates and maintain their profit margins. Rate cuts are sometimes accompanied by lower mortgage rates on home purchases—but that hasn't been our recent experience. Three rate cuts at the end of 2024 saw no reduction in mortgage rates, and the most recent cut saw an actual increase, due to a higher yield on 10-year Treasury bonds.

A lower fed funds rate also tends to lower the variable annual percentage rate on credit cards—but the impact tends to take some time to kick in and should be seen as minimal. The current average rate of 20.12% might decline slightly. For a \$5,000 credit card balance, the monthly interest payments may go down a couple of dollars.

On the other side of the balance sheet, when the fed funds rate goes down, banks immediately reduce their interest rate on savings accounts and money market funds. If your savings account previously offered a 4.5% rate, that could now drop to 4.25%, slightly reducing the incentive to maintain large sums in the bank. The idea is to get people to spend rather than saving, which boosts the economy. Alternatively, people might be slightly more inclined to invest in stocks, which gives a bit of a tailwind to the market indices.

Finally, any reduction in interest rates can be seen as an incentive for corporations to borrow—in order to build new factories or conduct research and development. This is regarded as the biggest potential economic boost, but a small rate reduction can be washed out by uncertainties like rising inflation, rising unemployment and tariffs.

This probably doesn't sound like an earth-shaking event, and at this point, the Fed's action is more of a signal than an impact. Lowered rates are a signal that the Fed's economists are worried about unemployment and a recession; a rate rise tells us that the Fed is more worried about inflation and an overheated economy.

And when you get down to it, a rate cut of 0.25% represents a very cautious signal, with little real-world impact.

Sources:

<https://www.bankrate.com/mortgages/federal-reserve-and-mortgage-rates/>

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<https://www.cnbc.com/2025/09/17/fed-cuts-interest-rates-how-it-affects-credit-cards-and-loans.html#>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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