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Federal Reserve Cuts Rates: What It Means for Savings Accounts, Investments and Loans

Find out how the Federal Reserve's decision will impact all aspects of borrowing and spending

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The Federal Reserve voted to **reduce its federal funds rate today**, marking the second rate cut in a row for the central bank. After more than two years of prohibitively high rates amid stubbornly high inflation, the Fed started cutting rates in September and followed suit this month.

Policymakers voted to lower their benchmark interest rate by 0.25 percentage points in November, a smaller cut compared to the half-point cut they implemented in September. The reduction to a range of 4.50% to 4.75% was expected by many analysts, who predict another cut may come in December.

However, **Donald Trump's presidential election** win has made the Fed's future plans less certain. The central bank will need to consider how Trump's policies could influence labor and inflation as it weighs future reductions. Some investors are concerned that inflation might rise as a result of Trump's trade policies, stalling future cuts.

"The past few meetings have pointed to the Fed's intention to support a softening labor market," says Nathan Hoyt, chief investment officer at Regent Peak Wealth Advisors. "While inflation is still higher than the market is accustomed to, it's slowed enough for them to justify a more accommodative policy."

The Fed's rate moves will certainly trickle down to consumers — and have already started impacting the majority of financial products on the market. If you're planning to use a credit card, open a new savings account or take out a loan in the near future, here's how you can expect the Fed's changing policies to affect you.

Why the Fed cut rates

In 2022, inflation was high, at one point surpassing 9% — the highest inflation rate seen in almost four decades. To combat this, the Fed started to raise interest rates. When rates are high, consumers borrow and spend less, which reduces demand for goods and services and eventually tamps down inflation.

The Fed kept rates high for years, aiming to slow inflation to a 2% rate without pushing the economy into a recession. Inflation fell steadily from 9.1% in mid-2022 to 2.5% in August 2024, allowing the Fed to pivot and start reducing rates in September.

At a press conference on Nov. 7, Federal Reserve Chair Jerome Powell said inflation has substantially eased since September. "We continue to be confident that with an appropriate recalibration of our policy stance, strength in the economy, and the labor market can be maintained with inflation moving sustainably down to 2%," **he told reporters**.

Recent unemployment numbers — which have been above 4% for the last several months — also led to the bank's November rate decision. When unemployment is high, reducing rates can help lower costs for businesses and encourage growth and hiring.

"The Fed is dialing back its restrictive monetary policy," says Ed Farah, principal at Florida Value Partners. "Inflation is currently within sight of its 2.0% target, and the labor markets continue to experience rising unemployment numbers over the past 12 months."

What the Fed's move means for interest rates

The federal funds rate is the interest rate banks pay to borrow money, and it also serves as the basis for the prime rate — the index rate that many loans and financial products are tied to. As such, any changes to the Fed's rate can have a trickle-down impact, affecting what consumers pay to take out loans, as well as what returns they get on interest-earning products, like savings accounts and CDs.

Here's how you can expect the Fed's most recent moves to impact your options:

Home equity lines of credit (HELOCs) and credit cards

The products that will be most affected by the Fed's recent rate cut will be those that have rates based on the prime rate — products like HELOCs and credit cards.

"Already declining HELOC rates will be immediately impacted," says Jeff DerGurahian, chief investment officer and head economist at loanDepot. "With homeowners holding historic levels of equity, HELOCs could help you ease other inflationary pressures, offering a smart option for consolidating your high-interest credit card debt or funding home improvement."

Using a HELOC to pay off credit cards is particularly smart at the moment, because while credit card rates will likely drop after the Fed's latest move, the reduction will be too small to make much of a difference for most card-carrying consumers. (Average credit card rates are currently in the double digits.)

"Credit card rates will sink," Hoyt says. "Although moving from 20.50% to 20.25%, on average, won't provide much relief for debtors."

Savings account and CD rates

Fed rate changes also affect what interest rates banks offer on their interest-earning products like traditional savings accounts, high-yield savings accounts and CDs. When the Fed's rate drops, it's more affordable for banks to borrow money, and they don't need to entice more deposits to get funds. For this reason, savings account and CD rates typically drop as the Fed cuts its rate.

Rates on these products had already started falling as Fed rate cuts became more likely. But this latest reduction "will likely cause financial institutions to lower rates faster than they would otherwise," says Bryan Johnson, chief financial officer at Seattle Bank and CDValet.

That said, the impact on CDs will likely vary based on term, Johnson says, with longer-term CDs and those with "non-standard terms" potentially retaining higher rates than others. Non-standard terms, Johnson adds, include less commonly offered ones like seven-, eight- and nine-month.

"Most rates will likely decrease in November," Johnson says. "Consumers who wait [to open an account] will most likely end up with lower CD rates in the future."

Mortgage loans

How mortgage rates are affected depends on the type of interest rate a loan has. Adjustable-rate loans are directly impacted by the Fed's moves, and as the Fed's rate changes, the loan rates will, too.

"Adjustable-rate mortgages should become more appealing as the Fed continues to cut rates," says Jeff Polashuk, regional vice president of Compass Florida Southeast. "The adjustable rates tend to follow the fed funds rate in lockstep."

Long-term mortgage rates, though — like those on 15- and 30-year fixed-rate mortgages — are less directly affected by the Federal Reserve's moves. While the Fed's policies do influence these rates in some ways, many other factors also play a role, including investment activity, the bond market and housing conditions.

When the federal funds rate drops, mortgage rates generally dip, too, but it's not a one-to-one correlation. Take September's rate cut, for example: While mortgage rates did fall as the market began to expect a rate reduction was on the horizon (August rates fell from 6.74% to 6.35%), they've actually jumped since that point and now hover around 6.79%.

Still, they're much lower than rates seen a year ago, and forecasts largely expect them to fall further before the end of 2024. The Mortgage Bankers Association predicts the average 30-year rate to finish out the year at 6.30%, while Fannie Mae forecasts a 6.00% average.

In 2025, rates could fall even further. But be warned: "Barring unexpected developments in the economy, it seems unlikely interest rates will return to the historically low levels of the 2010s and COVID era," says Adam Reinert, chief investment officer and chief operating officer at Marshall Financial. "While this indicates an economy on firmer footing, it may be disappointing for consumers hoping for significant relief on mortgage rates."

There's another downside, too: Lower mortgage rates could cause housing demand to spike. Polashuk explains, "As the rates continue to drop, demand will increase. This could increase home prices as well."

What's next?

The Federal Reserve still has one more meeting before 2024 comes to an end, and by most predictions, it will bring yet another cut to the federal funds rate. It all depends on the data, though.

"The Federal Reserve's decision hinges on two key factors: inflation continuing to moderate and a cooling labor market," Reinert says. "A trend of reaccelerating inflation or signs of a reinvigorated labor market could diminish the prospects of future interest rate cuts."

While the CME Group's FedWatch Tool shows a nearly 100% chance of a rate cut in December, much can change in a month. If you're eyeing a financial move, experts say it's best not to wait — but instead, time your move based on your personal budget and circumstances.

"I wouldn't encourage anyone to circle a single event or policy to inform their financial decisions," Hoyt says. "During your lifetime of financial decision-making, you will have poor timing and good timing. Mitigating the risk of bad timing by choosing investment or debt vehicles that align with your financial goals is better to focus on."