Yes, Your Car Loan Will Still Be Cheap As Fed Holds Rates Low

By **Marilyn Geewax** **June 17, 2015**

The Federal Reserve's policymakers Wednesday held steady on interest rates — and gave no specific time frame for when they might change course.

That was the expected outcome of their two-day meeting.

But this changed: The policymakers seemed a bit more optimistic about the U.S. economy. Their statement said that while inflation is very low, "economic activity has been expanding moderately."

At a news conference, Fed Chair Janet Yellen said, "We have seen some progress." Still, rate hikes won't come until the Fed sees "more decisive evidence" that growth really is sustainable.

Overall, her words struck most analysts as a sign the Fed will start to nudge up interest rates, probably once in September and again before Dec. 31.

"After that, it will take its time and will only gradually tighten monetary conditions further," Nariman Behravesh, chief economist for IHS, said in a statement.

But for now, it's still groundhog day, with no changes. The Fed has not had a rate hike since June 2006 — so long ago that the housing bubble was still inflating and Shakira was assuring us that "Hips Don't Lie."

So here's what the Fed decision means for you:

The nation's central bank is going to continue holding down interest rates to encourage you to borrow money for a new car or a home rehab or some other purchase. The goal is to stimulate a recovering economy.

Some economists say that extra help isn't needed anymore. They point to signs of an improved economy. For example, the Bertelsmann Foundation's International Non-profit Credit Rating Agency just upgraded its U.S. assessment from AA+ to AAA, saying that the "United States promises to be a more reliable driver of the global economy in coming years — with expected growth of 1.5 to 3 percent in 2015, and 2.5 to 3 percent in 2016."

But the Fed noted lingering problems, saying that "business fixed investment and net exports stayed soft."

Although the Fed statement didn't mention it, there's another worrisome factor hanging over the economy. It's the trouble in Greece, which owes more money to creditors than it can afford to pay.

Because Greece belongs to the European Union, its debt crisis is a big problem. European leaders are meeting next week and will try to sort out that debt mess. But it's possible there are no solutions and Greece might have to leave the EU. That would open up all sorts of unknowns that could upset markets.

"The one and only reason the Fed chose not to act this time was because of Greece," **Bernard Baumohl, chief global economist for The Economic Outlook Group**, said in a statement.

"The Fed couldn't comfortably pull the interest rate trigger this time until it got past the potential fallout of a Greek default," he added.

Fed policymakers have been keeping its benchmark federal funds rate at near zero since December 2008.

Translation: Your cost of borrowed dollars has been at historically low levels for a long time now.

Cheap loans might sound good, but there are downsides. For one thing, it's hard on savers who need to earn more interest on their money. Also, a lot of economists worry that super low interest rates make it *too easy* to borrow, leading to dumb spending decisions by both individuals and businesses.

So most economists would like to see interest rates rising gradually to more normal levels amid a strengthening economy.

Fed officials worry that if interest rates go up while the economy is still fragile, consumers might stop shopping and home sales could stall. Better to keep rates low as a precaution, goes the thinking.

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