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Published March 19, 2008  
[ From Lansing State Journal ]

## Fed gets aggressive with latest rate cut

Goal is stop crisis in credit, fend off steep recession

Martin Crutsinger  
Associated Press

WASHINGTON - The Federal Reserve slashed a key interest rate by three-quarters of a point Tuesday, capping its most aggressive two months of action in a quarter-century in a battle to halt a spreading credit crisis. Wall Street loved it, bursting to its biggest gain in five years.

The Fed action seemed to convince investors that the central bank will do whatever it can to fend off a recession. The Dow Jones industrial average finished up 420.41 points at 12,392.66.

The latest Fed move brought the federal funds rate - the interest that banks charge each other - down to 2.25 percent, the lowest since late 2004.

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The reduction triggered announcements from commercial banks that they were cutting their prime lending rate to 5.25 percent from 6 percent. This is the benchmark for millions of business and consumer loans.

The Fed action was designed to lower borrowing costs and boost spending by consumers and businesses.

Illhan Geckil, senior economist at East Lansing-based Anderson Economic Group, thought the Fed would cut the interest rate by a full point.

"The Fed might have thought the market was not ready for that big of a cut," Geckil said. "By not cutting it that much, they gave themselves some flexibility for the future." The Fed may also have tried to curb fears of inflation by holding back on the rate cut, he said.

While the lowering of interest rates will make it cheaper for people and businesses to get credit, that is a short-term fix, Geckil said. A long-term solution will come when more jobs are created, giving people money to pay debts. "People have borrowed more than they can pay," he said. "There's no quick fix for that. People need to spend less. They need to learn that lesson."

Staff writer Barbara Wieland contributed to this report.

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(Photo by RICHARD DREW/Associated Press)  
Going up: Trader Vincent Vincent Quinones (foreground right) gathers Tuesday with other traders on the floor of the New York Stock Exchange. Wall Street closed with its biggest gain in five years.

### The rate cut's impact on consumers

Two examples of how borrowers and savers will fare in the lower-rate environment:

- Will consumers see lower rates on their credit cards?
- Probably, but not right away, said Greg McBride, senior financial analyst with Bankrate.com. "Card issuers tend to pass along rate increases more quickly than rate decreases," he said. The lag is typically up to three months, and the reduction may not match the Fed's cut, he added.
- What about home mortgage loans?
- "The biggest beneficiaries of the repeated rate cuts are homeowners facing resets with adjustable-rate mortgages," McBride said. That's because the rate on many of these home loans is pegged to the rate on the one-year Treasury bill, which tends to move down after Fed rate cuts. So a family with a \$200,000 home loan would have seen a \$370 increase in monthly payments if the rate adjusted last summer, but a loan that reset this spring would have a \$50 per month decline, he said.

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