

On the money

To quell recession fears, the Federal Reserve cut its target for the federal funds rate by three-quarters of a percentage point Tuesday, the deepest cut in more than 25 years. What this may mean to consumers:

Interest rate primer

- **Federal funds rate:** Rate banks charge one another for very short-term loans; affects rates banks charge when they lend, interest they pay on deposits

- **Discount rate:** Rate Fed charges banks for short-term loans; usually adjusted with federal funds rate, but not as important since banks seldom borrow from the Fed

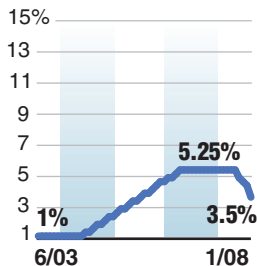
- **Prime rate:** Rate banks charge their best customers, such as large corporations; moves with the federal funds rate; most bank credit card rates and home equity lines of credit (HELOC) are pegged to the prime rate

- **Mortgage rates:** Most fixed-rate mortgages follow the 10-year Treasury note's yield; adjustable-rate mortgages are tied to yields on short-term Treasury bills or the London Interbank Offered Rate (LIBOR); neither are directly affected by federal rate adjustments

- **LIBOR:** Rate that banks offer to lend one another funds in the wholesale money markets in London; used to set rates on many variable-rate loans, including U.S. subprime mortgages

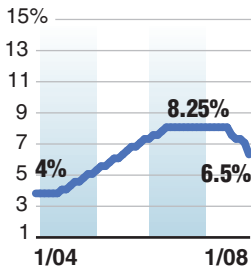
When the Fed adjusts its target rates ...

Federal funds rate



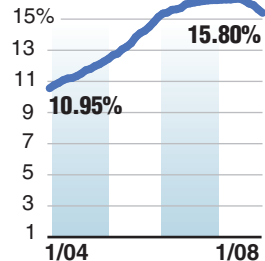
... banks adjust the prime rate ...

Prime rate



... rates on bank credit cards rise or fall ...

Average variable rate



... as do yields on bank CDs

Average yield on 6-month CD

