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Fed Rate Cut Won't Lower Borrowing Costs Right Away

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Borrowers who have been waiting for relief from high rates might have to keep waiting.

The Fed lowered its benchmark rate on Sept. 17, its first trim this year, and signaled more cuts could be ahead. President Trump has said people can't afford homes because the Fed's rates are too high, but the central bank doesn't set mortgage rates. What the recent cut means for savings accounts, credit cards and car loans also isn't clear-cut.

Here is how Fed cuts could move through the economy:

Mortgages

Mortgage rates aren't set by the Fed, so don't bet on any major drops soon.

The average rate on a standard, 30-year fixed mortgage drifted down in recent weeks to 6.26%, the lowest level in nearly a year, then edged up last week to 6.3%. The figure isn't expected to veer far from the 6% to 7% range it has been stuck in.

The Mortgage Bankers Association recently estimated that mortgage rates would actually increase to 6.5% by the end of the year. The association forecast that mortgage rates would be only slightly lower than that by the end of 2026.

The Fed's moves target shortterm interest rates. Mortgage rates, on the other hand, tend to move loosely with yields on longer-term, 10-year Treasuries. Those yields rise and fall based on expectations for the economy. *Note*

Last year, mortgage rates slid in anticipation of a Fed rate cut that September, only to rise afterward because investors at the time had forecast continued economic growth and inflation. *Note*

Credit cards

Credit-card rates are based partly on a prime rate, which is tied to the Fed's benchmark rate. Once the Fed cuts rates, cardholders typically see their interest rates adjusted within two billing cycles. *Note*

But for those who carry a balance, a single rate cut by the Fed won't make much of a dent on monthly minimum payments. *Note*

For the average credit-card balance of \$6,473 with a 22% rate, for instance, a quarter-point rate cut would decrease the monthly payment by around a buck, according to TransUnion, a credit-reporting company.

It is why people shouldn't bet on rate cuts to get them out of creditcard debt, said Stephen Kates, a financial analyst at Bankrate, a financial services company and website.

“The lower interest rate isn’t going to necessarily change things overnight,” he said. “We are going to potentially be waiting six months, 12 months or possibly longer for rates to come down even 1 or more percent.” *Note*

Car loans

Drivers who are waiting to buy a new car might finally see elevated rates on car loans come down some.

The average rate for a new car has remained virtually unchanged at 7% from last year, according to Edmunds, a company that operates a car-buying and research platform. For used cars, the average rate was 10.7% in August, down from 11.3% the same time last year.

Still, relief isn’t assured because other factors determine the rates people get, including the length of the loan, the amount they are borrowing and broader delinquency rates. Prices for new and used cars have gone up significantly since before the pandemic.

Savings accounts

On the upside, the rate on your savings accounts might not take a hit right away. Banks are expected to be slower to cut rates on deposits than on loans, which could weigh on their profits in the near term.

The highest yield on a six-month certificate of deposit was recently around 4.4%, down more than a percentage point from the level before the Fed started to lower rates last year, according to Ted Rossman, senior industry analyst at Bankrate.

Any further decreases are expected to be gradual and modest for many CDs and high-yield savings accounts. Competition has given banks less room to lower deposit rates, Moody’s said in a recent note.

Banks have taken a cautious stance to avoid being “the first one out there” to lower rates and potentially lose deposits, said John Buran, chief executive of Flushing Financial.

Average yields on savings accounts and several different types of CDs were mostly flat after the Fed cut compared with the prior week, according to Bankrate.

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