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SPECIAL FEATURE

Don't Get Left Behind in a Rising Rate Environment

By David W. Tralka, President and CEO of Insurbanc

Interest rates are rising again. In June, the Federal Reserve made its fourth upward adjustment in 18 months. The Fed's recent tightening brings to a close a remarkable chapter in our monetary history. In December 2008, the prime rate fell to a near-record low of 3.25 percent and remained unchanged for seven straight years. Not since 1955 had rates been that low, and not for that long a period of time. As a consequence, many younger agency managers have never lived through a rising rate environment and may not fully appreciate the impact of higher rates on borrowing costs, cash management and agency values.

While most economists expect the Fed's rate hikes to be gradual, it's important to understand that because we have had low interest rates for so long, even relatively small increases will have a big impact on the cost of capital. The historical average for the prime rate is 7 percent. As we move back towards that mean, borrowing costs will increase significantly - in fact, double. Agencies need to be prepared and take steps to better manage their capital needs.

Click here to read the full article.

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