Season 3 | Episode 98

With Interest Rates Rising, Think Long Term – Loans, Money Management

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Gene Marks:
Hey, everybody, this is Gene Marks and welcome to this week's edition of “On the Mark”. Thank you for joining me. And the news this week has to do with interest rates. This past week, the Federal Reserve has said that they were going to be raising interest rates another 75 basis points. That's the second 75 basis-point increase in just the past few months. There could be another one on the way, as well.

This is an increase in its federal funds rate. That's the interest rate that bank charges each other to borrow, lend excess reserves, you know, overnight. And listen, that that rate then drives interest rates for everything else across the country.

So, we're going to be affected by this. Already, the standard 30-year fixed mortgage rate is above 6 percent, which is more than twice what it was really at the beginning of the year. That's going to continue on. There are lots of, you know, commercial rates that are out there that are ranging anywhere right now from 6 to 15%, as well.

And, you know, it is an issue. It's definitely going to be a big issue for us as business owners through the remainder of 2022 and for most of 2023. So, obviously, you these interest rates are rising. Many economists are expecting these rates are going to continue, like I mentioned. So, we're going to be facing higher costs to maintain our debt and borrow additional funds, and it's probably going to potentially result in less capital available for us, as well.

So, let's talk about what we can do to navigate our way around this situation. Okay. I have some thoughts for you. For starters, get rid of your credit card debt and any other high-interest loans with variable rates. The interest on this debt is going to become even more costlier than it is right now.

So, if you're able to pay down any of your higher interest rate loans, do it. Okay? You know, try and convert this debt or even portions of it to a longer-term loan with fixed-interest rates, even if you mean, you know, if it means you have to pledge collateral to it. I mean, get a home equity loan even. I would rather you have you convert your credit card debt to a home equity loan, you know, because your rates will be significantly lower. I realize that it's going to be, you know, based on the collateral of your home, but it is something that I think is really, really important to consider.

So, you really want to make sure that you do that. You know, you're going to you know, if you have these rising debt service costs, it's going to be a big hit to your cashflow and it's going to be a problem. So, convert short-term debt to long-term debt.

Next, if you need financing, you'll find the best rates and the best chance of approval with either the government backed Section 7a or 504 loans. These are being issued by the Small Business Administration, the SBA. So go to the SBA, its sba.gov and apply for loans there, or even convert some of your loans to SBA loans. You might find that interest rates are either at or below market rates.

And also, don't forget about the state Small Business Credit Initiative, SSBCI. Google that and your state, there's $10 billion going out from the federal government to all the states around the country this year and next to provide lower-cost loans and grants and even equity financing, as well. So, that could be, you know, that could be another resource for you. Okay?

So, you know, let's look at the other side. Interest rates are going to increase your cost of borrowing. That is, you know, that's for sure. But, you know, there is a little bit of a silver lining there. It's also going to increase your potential income if you manage your money wisely.

So, you know, savings rates aren't significantly rising just yet, but trust me when I tell you they will. It's a competitive environment: Banks are looking to attract money, right? So, talk to your banker. Right now. Set up higher-yield checking or money market accounts. Start sweeping any excess cash there. Consider putting any cash you don't need for six months or a year into an FDIC insured certificate of deposit, which generally pays higher interest but locks up your funds for a period of time.

Also, we want to consider U.S. Treasury bills in the short term until interest rates are rising. You know, right now the U.S. Treasury, the three-month U.S. Treasury was somewhere between 3 and 4%. It's like a level that we haven't seen in like 15 years. So, you know, it's still you know, it's still a negative return because inflation is like 8%, but it's catching up, and that's good news. Every dollar, every percentage point that you can get in interest income will certainly help.

If you're willing to take a little bit more risk, you want to invest for the long term. Consider moving any excess cash to like mutual funds, particularly blue-chip dividend paying funds. These are, you know, have historically proven to outpace their earnings. I've spoken to a number of wealth advisors who are advising their clients to rebalance their accounts, you know, and put money into these blue-chip dividend yielding companies.

Obviously, there's a risk involved, and this is my advice. Gene Mark's not, you know, not the advice of Paychex. But it is something that I'm seeing a lot of my clients doing. Okay? So, just be aware and there will be ups and downs even at blue-chip firms and they're not immune to declines in their stock price. Okay?

A couple other things. You know, we're talking about managing cash here, right? We want to make the best use of it. So, step up your credit and collection activities. Obviously, make sure that you don't have any receivables that are outstanding within 30 days. It's costing you money. You know, the longer your invoices stay open, the less interest you're receiving. All that money's becoming important, you know?

So, you know, I'm also advising my clients to take advantage of any supplier discounts for any payments, you know, like that 2% net 10 thing? You know, that's a really great way to save money and get discounts, particularly if you've got the cash to do it, particularly and also in a higher interest world, you know.

What's the bottom line is this: We're in an era right now of higher interest and higher inflation. You definitely need to have a financial adviser working along with you. Okay? No investment is right for everyone. You know, everybody's at different stages of their professional and personal lives. So, you know, today's markets are very volatile, and the interest rates are the highest that we've seen in years. So, you know, I strongly suggest that you talk to a financial advisor, you get a good wealth manager, come up with a plan, you know, so that you can navigate your way through this time of higher interest rates.

Listen, do I expect personally for interest rates to go as high as what we saw back in the late seventies and early eighties? I don't see that as, you know, happening, but I do see rates somewhere between 6 and 10% over the next couple of years, as well as inflation. That's still higher than we're used to. It is not, you know, catastrophic. It is just something that we're going to have to navigate our way around.

I'm hoping that some of the advice that I shared with you today will help you navigate your way around in this environment. Hey, you've been listening to “On the Mark”, a Paychex Thrive podcast. My name is Gene Marks. I hope you got some good information out of this.

This is the news this week and some of my thoughts on it. If you've got any advice or you'd like to suggest some guests or tips, you'd like to visit us, come to our website at payx.me/thrivetopics. That's P-A-Y-X dot M-E/thrivetopics.

Thanks again for listening. I will be back next week with some more news that impacts your business and some thoughts on how you can deal with that information to make sure that you are growing and profitable. Thanks for listening. See you next week. Take care.