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Borrowers beware! Rising interest rates return?

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By Michael L. Diamond

Consumers and businesses wanting to borrow money are facing a factor that they haven't had to consider in nine years: Interest rates are on the verge of heading higher.

But bankers and experts caution them not to make a rash decision. Rates, they predict, are likely to rise only slowly and will remain well below their historic averages.

"Nobody has to rush to the market," said James Vaccaro, president and chief executive officer of Manasquan Savings Bank.

The Federal Reserve Board this week said it would maintain the federal funds rate – the interest rate banks charge each other on overnight loans – at its current target of between 0 percent and .25 percent until it sees more improvement in the job market and inflation of about 2 percent.

But analysts saw enough in the statement to predict that the Fed would increase the rate slowly later this year. That would affect short-term borrowing costs such as car loans, home-equity lines, personal loans and some credit cards.

Since the recession began in 2008, the Fed has been "trying to re-inflate the economy," said Scott Mahoney, executive director at Morgan Stanley in Morristown. "The way they've done that is to keep (the federal funds rate) at zero. Once it heats up, it's a very crucial tool that they have in their arsenal."

More than a decade

It has been more than a decade since the economy was strong enough to warrant an interest-rate hike. From June 30, 2004 to June 29, 2006, the Fed increased rates at 17 consecutive meetings, said Keith Gumbinger, vice president of HSH Associates, a Pompton Plains company that tracks interest rates.

The Fed abruptly changed course when the housing bubble collapsed. And it hasn't been compelled to move; the economy has recovered only slowly, Gumbinger said. Until now.

"It's likely to be a slow and protracted process that they hope gets to normal, a fed funds rate of just under 4 percent," he said. "This is going to take place over a long period of time. Should you rush out and get yourself whatever? The cost of credit is not going to change all that much."

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NJ banks, with money to lend, search for customers

Shore-area banks reported stronger loan activity. Their second quarter earnings results:

•**OceanFirst Financial Corp.** said its net income rose slightly mainly because it generated more interest from loans.
The Toms River-based company reported net income of $5.13 million, or 31 cents a share, compared with $5.12 million, or 30 cents a share, the same quarter a year ago. The company said it received regulatory and stockholder approvals during the quarter for its acquisition of Colonial American Bank. That merger was expected to close on Friday.

•**Harmony Bank**said its net income rose threefold after it made more money from interest and set aside less money to cover bad loans.

The company, based in Jackson, reported net income of $392,939, or 16 cents a share, compared with net income of $110,500, or 5 cents a share, the same quarter last year.

•**Shore Community Bank**said its net income increased 50 percent thanks to a string of seven consecutive quarters of loan growth.

The Toms River-based bank reported net income of $314,450, or 13 cents a share, compared with net income of $209,443, or 8 cents a share, the same quarter a year ago.

The company said it added a commercial loan officer to its team in a sign that it plans to expand its loan pipeline.

•**Two River Bancorp**said its net income rose 4 percent. It too said interest income from loans picked up.

The Tinton Falls-based company reported net income of $1.45 million, or 18 cents a share, compared with net income of $1.39 million, or 17 cents a share, the same quarter last year.

The company said it had a record increase in loan generation, which it thinks will lead to earnings growth.