

BANK ADVISORY

Fed Rates

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Dear clients and friends:

The Federal Reserve's Open Market Committee decided on September 16 to keep its target for the federal funds rate at 2.00 percent. Some financial industry officials expected the Fed would cut that key interest rate based on this week's developments in the financial markets, most notably the problems at Lehman Brothers Holdings and American International Group.

In its statement the Fed did not mention any companies or financial industry segments. It noted that "economic growth appears to have slowed recently" and that "Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities."

The Fed added: "The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee."

However, the Fed indicated it could cut the federal funds rate if it feels conditions are warranted. It said: "The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability."

The next Open Market Committee meeting will be October 28-29. The Fed also could raise or cut the federal funds rate prior to that meeting.

On April 30, the Fed cut its federal funds rate target from 2.25 to 2.00 percent. Banks usually keep their prime rate 300 basis points above the federal funds target. Since April 30, the prime rate has been 5.00 percent at most banks.

If you would like more details on the Federal Reserve's decision on interest rates, please do not hesitate to contact us at (305) 373-5500.

Sincerely,



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