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Loans in USVI Becoming More Expensive as Local Banks Increase Interest Rates in Response to Federal Reserve Hikes

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Representatives from various banking and financial institutions operating within the U.S. Virgin Islands on Tuesday said that interest rates will continue to increase as the Federal Reserve take action to tame inflation.

The U.S. Federal Reserve last Wednesday increased the interest rate by 0.75 percentage point. This was the third increase this year and the most aggressive single move by the Federal Reserve since 1994. It is aimed at taming surging inflation not seen in 40 years.

Speaking during a Senate Committee on Economic Development and Agriculture hearing, Glendina Matthew, acting director of the Division of Banking, Insurance and Financial

Regulation within the Office of the Lieutenant Governor, testified on how sky-high inflation is impacting the local economy.

The higher interest rates are meant to limit the cost of borrowing which may result in less consumer spending and therefore minimize economic growth to counter inflation, she said. This means that consumers in the U.S. Virgin Islands will see an increase in interest rates on mortgages, credit cards, and personal loans at a higher rate than in the past years.

This will specifically affect persons seeking to obtain new credit with the local banks.

“The increased demands for products coupled with supply shortages throughout the world as the global economy bounces back from the Covid-19 pandemic, and the impact of the Russian invasion of Ukraine are sending inflation to new highs," Ms. Matthew said. "Food, gas, and shelter costs are on the rise. The rising costs can be seen in many countries including the United States and its territories. To slow down inflation, central bankers, who manage each country’s currency and monetary policy have raised interest rates.”

The idea of a soft landing, which would see the U.S. economy maintaining growth at a steady pace even as the Federal Reserve raises interest rates aggressively to tame inflation, is looking less likely. A new report published Friday by the Federal Reserve Bank of New York says the U.S. economy is on the path to shrink this year. According to the report, which was based on the New York Fed's model on the economy's path, “the chances of a hard landing…as occurred during the 1990 recession are about 80%,” while the probability of a “soft landing,” in which gross domestic product essentially remains positive over the next 10 quarters, is 10%."

The concern for bankers is that rapid inflation will likely reverse post-pandemic recovery. Julia Crispin, manager at the Mid-Island Federal Credit Union shared that the overall state of banking in the territory has made members less eager to take loans, although savings have increased. She said the decline in loans, as well as increased vendor payments and other factors have negatively affected her bank's net income.

Bank of St. Croix Community President Christiana Williams said interest rates "will impact to a significant effect lending products because that key interest rate set by the Federal Reserve is that benchmark that most lenders use to determine what will be charged. And so rates have already started to go up; they began late in the first quarter and have continued to rise. We're currently in a rising rate environment."

Oran Roebuck, senior vice president of Banco Popular Virgin Islands Region, stated, "Our rates will increase and have started to increase to the 0.75 bases points, however we are looking at it differently as to how we can steer our clients [to] the best option for them." She explained that Banco Popular is among the SBA-preferred lenders, "and we are looking to steer more of our commercial clients in that direction," while also providing options for clients seeking mortgages.

Oriental Bank Regional Manager Attallah Bertrand said, "Interest rates are definitely impacting; the extent will depend on the customer and the transaction."

First Bank VI Senior Vice President Valdamier Collins stated, "As indicated earlier, we will see increases on our products as a result of the interest rate hikes.

According to the Wall Street Journal, citing mortgage-finance giant Freddie Mac, the average rate on a 30-year fixed-rate mortgage rose to 5.78 percent — the highest level since November 2008 and well above the 3.11 percent recorded near the end of last year. Two weeks ago Freddie Mac reported an average mortgage rate of 5.23 percent.

The meeting, which was hosted by members of the Committee on Economic Development and Agriculture and chaired by Senator Kenneth L. Gittens, convened at the Frits E. Lawaetz Legislative Conference Room on St. Croix.