Hedging Your Bets on Interest Rates

By Mac Winston

With the level of our national debt skyrocketing and projected to continue to increase, foreign governments like China will soon be demanding a higher rate of return on the US Treasury Securities they purchase. With higher rates paid on our national debt the growth in the interest we pay on the debt will increase significantly (projected to be as high as 11% of our national income in 2013), and only worsen a national debt condition already out of control as we struggle to fund the added cost of a new Health Care program, etc. If anyone doubts this rather bleak outlook consider this; debt rating agencies like Moody's are considering decreasing the credit rating for the US from its present perch at AAA.

"March 16 (New York Times) -- The gold-plated credit rating of the United States - an article of faith across America and, indeed, around the world - may be at risk in coming years as the nation copes with its growing debts. That sobering assessment, issued Monday by Moody's Investors Service, provided a reminder that even Aaa-rated United States Treasury bonds, supposedly the safest of safe investments, could be downgraded one day if Washington failed to manage the federal debt.

"March 15 (Bloomberg) -- The U.S. and the U.K. have moved "substantially" closer to losing their AAA credit ratings as the cost of servicing their debt rose, according to Moody's Investors Service.

The governments of the two economies must balance bringing down their debt burdens without damaging growth by removing fiscal stimulus too quickly, Pierre Cailleteau, managing director of sovereign risk at Moody's in London, said in a telephone interview."

The implications for us? Interest rates on personal (home, auto, and credit card) and business loans are going to go up.

What can we do? Well, since it seems we can't get the two houses of congress to decrease their spending, we can make sure we don't have any business or personal debt with early maturities that will require us to refinance the remaining balance at higher rates in the future. In other words get rid of balloon debt now.

It would also be wise to consider refinancing any business debt we have that has a fixed interest rate of 8.5% or higher and any debt with a floating rate. The current fixed lending rates for debt secured by the assets of a dental practice range between 7.25% and 7.75%, and are likely to represent the lowest rates we

CONTACT THE AUTHOR
Mac Winston, Managing Member | (800) 456-2779 | mac@ppcloan.com

will see for dental practice loans for years to come. The repayment term available for existing practice debt refinancing transactions is typically 10 years.

P.S. If you are planning on refinancing your business debt you should first check to see if it features any prepayment penalties. In some instances the payment of a prepayment penalty can eliminate the benefits anticipated in the debt refinancing transaction.

K.M. 'Mac' Winston, Managing Member, is co-founder of PPC LOAN, a nationwide lender with over 10 years of experience in providing financing for veterinarians. He can be reached at 800-456-2779 and mac@ppcloan.com to answer your questions and assist you with your practice financing needs.

CONTACT THE AUTHOR
Mac Winston, Managing Member | (800) 456-2779 | mac@ppcloan.com