WHAT DOES THE INTEREST RATES HIKE MEAN?

On December 16, the Federal Reserve did something it hasn't done in nearly a decade: It raised short-term interest rates. This was the first interest rate hike by the Fed since 2006 and it lifted the benchmark federal funds rate from the near-zero level it has been at since the financial crisis struck in 2008.

Economists were nearly unanimous in their expectation of the 0.25 percentage point rate hike by the Fed this month, so it didn't come as a big surprise. In announcing the rate increase, Federal Reserve Chairwoman Janet Yellen said the members of the Federal Open Market Committee believe the economy is now strong enough to withstand a series of gradual rate increases.

The rate-hike decision "recognizes the considerable progress that has been made toward restoring jobs, raising incomes and easing the economic hardships that have been endured by millions of ordinary Americans," said Yellen.

BUT WHAT DOES IT REALLY MEAN FOR YOU?

So what exactly does the December rate increase mean for you? To be honest, not a whole lot — at least not right away.

The interest rate hike received a lot of media attention and publicity, but we need to keep all of this in perspective. First of all, the increase was only a quarter of a percentage point, bringing the

federal funds rate up to a range of just 0.25 to 0.5 percent. That's still minute by historical standards.

For example, the federal funds rate was 5.25 percent when the Fed first started cutting rates in 2007. Going a little further back, it hit 20 percent in the late 1970s and early 1980s.

More important than the immediate impact of a quarter percentage point interest rate rise is the fact that this rate hike signifies a shift in the decade-long stance by the Fed that it would not raise rates until it believed the economy was healthy enough to do so. So given this, the rate hike is good news from a broad economic perspective.

In addition, the Fed indicated that it plans to gradually raise interest rates by about 1 percentage point a year over the next three years. This would culminate in a federal funds rate of 3.3 percent by 2019. So again, all of this is less about the quarter-point increase on December 16 and more about the beginning of a long-term, gradual rise in rates to try to get them back closer to historical norms.

IMPACT ON DEBTORS AND SAVERS

As for the immediate impact of the rate hike, the interest rate you pay on adjustable-rate consumer debt, such as a home equity loan, car loan or credit card balance, may go up slightly. In addition, new home mortgage rates should begin to increase as well (although interestingly enough, the first week after the Fed announced the increase in interest rates, 30-year fixed rate mortgages are on average down 0.01% and 15-year fixed rate mortgages are on average down 0.03%. At the same time, though, the interest rate you earn on your savings, like money market accounts and CDs, should go up slightly. If the Fed sticks to its plan of raising rates gradually, the impact will be more pronounced in these areas over the next few years. Therefore, while interest rates are anticipated to increase over the next couple of years (although not dramatically or quickly), this does begin to potentially favor fixed rate mortgages over adjustable rate mortgages (and consequently converting an adjustable rate mortgage toward the end of the initial fixed rate phase).

As for equities, the stock markets soared immediately after the rate hike was announced. This was dubbed a "relief rally" by some, since the markets had been guessing for so long about when and if the Fed would raise rates. However, markets pulled back again quickly in the following days. Longer term, many analysts believe that if the Fed maintains a slow, steady pace of rate increases, this shouldn't negatively impact stocks.

Keep in mind that there's no guarantee the Fed will keep raising rates, however. Other developed nations that have tried raising interest rates since the financial crisis ended have had to reverse course due to weak economic growth. The Fed's future course with regard to interest rates will depend on such factors as economic growth, unemployment and inflation.

So stay tuned. 2016 is sure to be an interesting year from an economic and interest rate perspective.

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