

Prime and Subprime

Subprime rates are rates that banks charge their customers that are riskier than the ones that are applicable for prime rate loans. Subprime is going to be more expensive due to the riskiness of the party's default chances. Prime rates are rates that banks charge their most credit worthy customers; banks' best customers are large corporations. The prime rate is highly dependent on the federal funds rate (an overnight rate at which banks loan money to each other.) Prime rates directly affects the lending rate available for a mortgage, small business loan or personal loan.