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Savers Feel Pinch Of Tight Credit

Banks Are Slashing Rates on Deposit Accounts and CDs, Forcing Consumers to Dig Deeper for Decent Yields

By **JANE J. KIM**
April 1, 2008; Page D1

Now it's savers who are feeling the credit crunch.

Yields on savings accounts, certificates of deposit and money-market accounts are dropping en masse in the wake of the Federal Reserve's latest round of rate cuts.

That's a shift from just last fall, when banks were generally slower to follow the Fed's lead and cut rates as they continued to compete for customer deposits. That gave savers more time to enjoy yields of 4% to 5% or more. But now, facing their own higher credit costs and weakening loan demand, banks are quicker to pass along the Fed's more-aggressive rate cuts.

In recent weeks, a number of banks that had previously offered high yields on deposit accounts, including Emigrant Savings Bank's EmigrantDirect.com, [ING Groep NV's ING Direct](#) and [Washington Mutual Inc.](#), have slashed their rates. At the same time, average yields on CDs dropped below 3% in early February from close to 4% last fall, and are currently between 1.95% and 2.75%, according to Bankrate.com.

For now, consumers can still find deals by foraging in some lesser-known corners. One option: limited-offer promotional-rate CDs. In recent weeks, for example, Countrywide Financial Corp.'s Countrywide Bank began offering a 12-month promotional CD yielding 4.2%, even as it cut the yields across the rest of its CDs to 3% or 3.25%.

Savers can also find attractive yields at smaller banks. Century Bank Direct, the recently launched online banking unit of Century Bank of Kentucky Inc., for example, is offering an online savings account that pays 4.01%. "We're new to the online banking world, and we're just basically trying to get a little attention," says Thomas Smith, the bank's

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basically trying to get a little attention," says Tamara Smith, the bank's marketing manager.

Credit unions and online banks also typically offer higher yields than big brick-and-mortar banks. And some firms with big mortgage-lending arms, such as Countrywide and [IndyMac Bancorp Inc.](#), that have had trouble raising money in the capital markets have been offering surprisingly high yields on some CDs through their banking units.

Where to Stash Your Cash

Spurred by Fed rate cuts and the credit crunch, banks have slashed their deposit rates in recent weeks. Still, some consumers can find deals on select CDs and savings accounts. Here are some examples:

Bank	Product
Bank of America bankofamerica.com	Offering a 2.60% online-only rate on a 4-month CD with a minimum deposit of \$5,000. The bank is also offering higher rates in branches in certain markets, such as Florida, Illinois, and Michigan.
Century Bank Direct centurybankdirect.com	Offering an online savings account yielding 4.01% with a minimum deposit of \$100.
Countrywide Bank countrywidebank.com	Offering a 12-month CD online yielding 4.20% with a minimum deposit of \$10,000.
GMAC Bank gmacbank.com	Offering a 12-month CD at 3.90%. Minimum opening deposit of \$500.
National City nationalcity.com/SaveNow	Offering a 48-month CD yielding 5%. Customers must deposit a minimum balance of \$10,000 and open a checking or savings account.

Source: the companies

Cuts in yield for savers "have

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certainly picked up speed as the Fed accelerated their pace of rate cuts," says Greg McBride, a senior financial analyst at Bankrate.com, which lists current yields at various financial institutions. Since September, the Fed has cut its federal-funds rate six times, to 2.25% from 5.25%. Over that time, the top-yielding CDs have dropped from over 5% earlier this year, and 5.5% last summer, to a range of 3.75% to 4.55% today, according to Bankrate.com.

The credit squeeze is also partly to blame for the lower rates. Last fall, the "crunch wasn't in full swing ... and banks believed they could still lend the money out or buy

some other debt obligations," says David Kaytes, managing director of Novantas LLC, a management-consulting firm. Now, amid rising loan losses and tighter underwriting standards, there are fewer places for banks to lend money to. And as banks court more credit-worthy customers, they are forced to charge lower rates on loans, which is squeezing their profits.

Some savers may be tempted to get a better payoff by seeking out higher-yielding cash alternatives, such as short-term bond mutual funds. But higher yields usually carry more risk. In recent months, for example, some investors holding "auction-rate securities" -- investments that Wall Street pitched as cash equivalents -- have gotten burned when that market froze up, leaving them stuck with uninsured holdings they thought they could easily sell.

By contrast, when savers park their cash in bank deposit accounts, their money is typically covered by the Federal Deposit Insurance Corp. for as much as \$100,000 per depositor, per insured institution.

As a result, many savers -- faced with falling rates and constrained by fears over credit defaults -- are trying to find higher yields in the FDIC-insured "safety zone" by keeping money at insured banks and not exceeding those limits.

Another alternative for savers are money-market mutual funds. Yields are currently averaging 2.74% for the 100 largest funds, but are expected to drop to about 2.5% by mid-April, according to Peter Crane of Crane Data LLC. Although the securities aren't insured by the FDIC, no retail investor has ever lost money in a money-market fund, he says.

Robert Ring of Boise, Idaho, says he's still able to find good deals on personal-finance Web sites such as [FatWallet.com](#), an online forum where users post info on bank products and other items. Last month, for example, he opened an account at Alliant Credit Union of Chicago, which was offering rates over 4% on a savings account.

"My theory is that you take what you can get, whether it's 4% or 1% or 2%," says the 38-year-old software engineer. "I don't worry about things I have no control over. I can cry and complain about it, but it's not going to get me a higher rate."

Others are locking in longer-term rates on CDs. In recent weeks, Ken Look of Chicago locked in a 5% rate for four years on a CD offered by [National City Corp.](#) "Everything is going negative in stocks, the same thing with mutual funds, so you scratch your head and think, 'What else can I do with my cash?' Even bonds aren't getting great returns," says the 45-year-old computer consultant. "I'd rather take my chances at getting a guaranteed rate of 5%."

But the overall trend in savings rates has clearly been downward. Even firms that have historically offered higher yields have lowered their rates steeply in recent months. EmigrantDirect.com, for example, cut rates several times in recent weeks on its online savings account to 2.75% from 3.6% in early March; earlier this year, it had been offering rates as high as 4.65%.

In recent weeks, [E*Trade Financial Corp.](#) dropped the yield on its online savings account to 3.45% from 4.10%, while [HSBC Holdings PLC's](#) HSBC Direct cut the rate on its online savings account to 3.05% from 3.55%. The Ultimate Money Account offered by [Citigroup Inc.'s](#) Citibank currently offers a top yield of 2.8% (with two online bill payments a month), down from 4.5% at the end of last year. Fidelity Investments cut rates last month on its mySmartCash account, which it launched last summer with a rate of 3.5%, to 1.75% from 2%.

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