



Managing Your Money

Savers aren't out of luck even though Fed lowered rates



Your Money

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Conventional wisdom holds that when the Federal Reserve lowers interest rates, savers suffer, because rate cuts reduce yields from certificates of deposit and other conservative investments. But sometimes, conventional wisdom is wrong.

Last week, the Federal Reserve cut the federal funds rate, a key short-term interest rate, by a quarter-point, to 4.5%. That move followed a half-point cut in the federal funds rate in September.

Yet despite those cuts, savvy savers can still find healthy yields on safe investments. Consider:

- The average rate for a one-year CD last week was 3.61%, the lowest this year, according to Bankrate.com. But several banks and other savings institutions are offering 5% or more for a CD with the same maturity. Countrywide Bank is offering 5.2% for a one-year CD with a \$10,000 minimum deposit. Don't have \$10,000 to invest? E-Trade Bank is offering 5.1% on a one-year CD, with a minimum deposit of only \$1,000.

Banks are paying above-average rates because they're hungry for deposits, says Greg McBride, senior analyst for Bankrate.com. "Banks of all sizes are very dependent on consumer deposits and are reluctant to blink first by lowering rates ahead of their competitors," he says.

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Countrywide Bank is an affiliate of Countrywide Financial, which has been hit hard by the subprime mortgage crisis. But bank CDs are insured by the Federal Deposit Insurance Corp. for up to \$100,000. So as long as your deposits don't exceed the insurance limits, there's no risk you'll lose your money.

•Numerous online and regional banks offer high-yield savings accounts with competitive rates. Yields on these accounts have dropped by an eighth to a quarter of a percentage point since September, but savers who shop around can still find yields of up to 5.3%, McBride says.

Some of the best rates on savings accounts are offered by banks that have no bricks-and-mortar branches. Transactions are processed by mail, phone or online.

Some savers are wary of Internet banks, and the recent collapse of NetBank may have increased their discomfort. NetBank, a pioneer in the Internet banking business, two years ago had \$4.8 billion in assets and 286,000 customers. But competition from other online players, along with the credit crunch and a rise in loan defaults, forced the company to file for bankruptcy protection. ING Bank agreed to buy \$1.5 billion of NetBank's insured deposits and \$724 million of its assets.

For customers with insured deposits, though, this bank failure was no different from the collapse of a traditional bank. The FDIC closed NetBank on Sept. 28, a Friday; over that weekend, customers could access their accounts with a debit or ATM card. By Sunday evening, they could conduct transactions on the bank's website, says FDIC spokesman David Barr.

"Internet banks are insured the same way traditional bricks-and-mortar banks are," Barr says. "If you have less than \$100,000 on deposit, you shouldn't have any concerns, whether your money is at an Internet-only bank or a traditional bank."

NetBank had \$109 million in 1,500 accounts that exceeded the deposit-insurance limits. Those customers received 50% of their deposits when the FDIC took over NetBank, Barr says. They'll have to wait until the FDIC sells the remaining assets to get their money — and there's no guarantee they'll get it all back.

That's why it's important to make sure your bank deposits are within the insurance limits. There are ways to insure more than \$100,000. If you're married, you can insure up to \$1.1 million at a single bank (see box). But be careful, because "if you don't do it properly, you could find out you have uninsured money when you thought you were fully insured," Barr says.

The FDIC says about 37% of the \$6.7 trillion in domestic bank deposits are uninsured. Some of those deposits belong to businesses that need to keep more than \$100,000 in their checking accounts to pay their bills, Barr says. But some of the money may belong to consumers who like keeping all their savings in one place and are betting that their bank won't fail, Barr says.

Of the 8,600 institutions insured by the FDIC, three — including NetBank — have failed so far this year. There were no bank failures in 2006 or 2005.

But as those NetBank customers with uninsured deposits are discovering, you shouldn't gamble with money you can't afford to lose.

"The odds are pretty good that your bank won't fail," Barr says. "But if you happen to be in the wrong place at the wrong time, it can be a pretty expensive proposition."

