The Charlotte Observer

Rising interest rates are a win for savers, right? Not exactly.

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If you're a saver who's been waiting for rising interest rates to boost your earnings, you'll have to wait a little longer.

After the Federal Reserve raised interest rates last month for the second time in a decade, big banks in Charlotte such as Bank of America and Wells Fargo are paying the same interest, or even less in certain cases, on certificates of deposit and other accounts.

Meanwhile, banks have been quicker to increase the interest charged to borrowers on credit cards and other products, an Observer analysis of banks' regulatory filings shows. That's because lenders make money on the margin between what they pay on deposits and what they charge for loans, and they're eager to boost profits after years of low rates, experts said.

Although low rates have been a boon for borrowers taking out mortgages and other types of loans, savers have been making virtually no interest off their deposits since the Fed slashed rates to near zero more than eight years ago to help the U.S. economy recover from the financial crisis.

Charlotte resident Stanley Kelkey is among consumers hoping banks will start paying more interest soon. Kelkey said he has money invested in bonds that he purchased in the wake of the financial crisis because CDs rates were too low at the time. Kelkey, 77, would much prefer to invest in CDs or money-market accounts, because he said it's easier to access that money if he needs it quickly.

After two Fed rate increases, he's upset banks haven't put more interest into savers' pockets.

"They haven't passed it on," he said. "And that's not right really."

Charlotte's dominant banks, Bank of America and Wells Fargo, are among those that have kept flat – or cut – interest paid to savers after the Fed started raising rates in 2015. At the same time, those banks have increased the interest they charge on some products, such as credit cards.

According to experts, banks are trying to boost profits after years of low rates and recoup costly investments they've made in recent years in mobile technology and cybersecurity.

Then there's competition. As long as their peers keep interest payments low, banks feel less pressure to raise theirs.

“On the deposit side, we’ll do deposit pricing based on the competitive circumstances,” Bank of America CEO Brian Moynihan told the Observer during a wide-ranging interview in December.

What it all means for savers: Banks likely won’t increase interest payments until the Federal Reserve boosts rates further, experts say. The Fed is anticipating three increases this year, but there’s no guarantee that’s what they will do.

“You’re going to have to have a couple more rate hikes for more water to build behind the dam, at which point you’ll see more broad-based improvement in savings yield,” said Greg McBride, chief financial analyst for Bankrate.com, a financial information provider. “Right now the improvement is very few and far between.”

Savers walloped

The Federal Reserve moved its benchmark interest rate to near zero in October 2008 in a move that aimed to boost the economy but walloped savers. After an increase last month, that rate is still at a miniscule 0.75 percent.

While rates for savers have stayed largely the same, banks typically hoist their prime rates for borrowers the same day of a Fed increase. Prime rates affect interest on a range of products, including credit cards, home equity loans and auto and personal loans.

Rates remaining low at the Fed have harmed savers “who basically get nothing on their money-market funds and saving-account balances,” the Cato Institute, a libertarian-leaning think tank in Washington, D.C., wrote in December 2015. After inflation and taxes, real rates on those instruments are negative, the group said, calling the lost interest income “a permanent loss of wealth.”

Bank of America, for example, paid an average interest rate of 0.01 percent on U.S. savings accounts during the last three months of 2016, according to regulatory filings released this month. That was unchanged from its rate during the same period in 2015, when the Fed made its first hike.

In addition, Bank of America’s average interest paid on consumer CDs and individual retirement accounts combined fell to 0.27 percent in the last three months of 2016 from 0.29 percent in the same period in 2015.

Bank of America increased the average interest charged on borrowers for some products over that same period. For example, its rates on U.S. credit cards rose to 9.35 percent from 9.15 percent.

Bank of America spokesman Jerry Dubrowski said that as interest rates “return to more normal levels, deposit rates should follow suit.” The bank “constantly monitors the competitive landscape and economic environment to ensure we remain competitive and provide fair deposit pricing,” he said.

At Wells Fargo, rates on CDs dropped to 0.30 percent in the last three months of 2016 from 0.54 percent in the same period in 2015. Meanwhile, Wells raised consumer credit card interest rates to 11.73 percent from 11.61 percent.

To be sure, Bank of America and Wells Fargo have raised interest payments to savers on some other products over the same period.

A Wells Fargo spokesman noted the bank is not changing its standard deposit rates at this time. The spokesman said “periodic” rate increases by the Fed will not automatically result in an increase to Wells’ standard rates, adding that “our strategy is to monitor the competitive landscape.”

Existing home equity lines of credit, credit cards and other consumer loans with variable interest rates tied to the prime rate will be impacted if the prime rate rises, the spokesman said.

Covering their costs

Marty Mosby, an analyst for Tennessee-based Vining Sparks, said banks are holding back on raising interest payments to account holders after years of low rates made it tough for financial institutions to cover operating costs.

“It’s branch costs,” Mosby said. “You got branches on these corners that they’re paying for. You’ve got transaction costs as you’re clearing checks and debit cards. You’ve got mobile-banking investments.”

Mosby predicts banks will pay more in interest once the Fed approves two to three more rate increases. “After that, you’re going to see rates going up really fast,” he said.

While savers are feeling the pinch, low rates since the financial crisis have benefited borrowers.

For example, at Bank of America, average rates on home equity products were 3.63 percent in the last three months of 2016. That’s down from 3.69 percent the same period in 2015.

Wells Fargo’s average interest rates on consumer auto loans declined to 5.54 percent from 5.74 percent over that same period.

The Fed’s next chance to raise interest rates comes in March, when the body that sets rates will decide whether to move.

In the meantime, McBride of Bankrate.com said savers searching for institutions that pay the highest interest might want to consider credit unions, online banks and community banks.

“As a saver,” he said, “seeking out the banks and financial institutions that are aggressively seeking deposits is how you earn additional return without taking additional risk.”