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Not all interest rates are dropping

By RICK BROOKS
Staff Writer

By now, you've heard a lot about lower interest rates. Money funds, CDs, fixed- and adjustable-rate mortgages, home equity credit lines — all falling down to their lowest levels in years.

But a couple of stubborn rates have bucked the trend.

The sticklers are rates on credit cards and consumer loans for such purchases as new cars.

The average credit card charges 18.94 percent, according to a recent survey by Bank Rate Monitor, a North Palm Beach, Fla., firm that tracks rates nationwide and publishes a weekly newsletter on the industry.

Credit card interest rates keep notching upward, despite the tumble in the rates banks must pay to borrow money. That's led to growing criticism.

But local bankers maintain that banks have to maintain high rates on their credit cards because of unprecedented levels of consumer default and delinquency.

On the other hand, consumers finally are starting to see some breaks on car loans, but the breaks are not of the magnitude seen in the mortgage field, for example.

The average car loan runs 11.57 percent, according to the Bank Rate Monitor survey. Some lenders have lowered rates on a four-year car loan to 8.9 percent or lower, but they aren't common yet.

Again, lenders say high rates of default force them to maintain higher margins on such consumer loans.

If you're looking for the best bargain on sticky interest rates, try a credit union. "To ... spur lending, they've been slashing rates and offering all sorts of great deals," said Hugo Ottolenghi, editorial director of the Bank Rate Monitor.

"They really had no choice," he added. "They just had too much money around."

Rates follow law of supply, demand

By BETTY JOYCE NASH
Staff Writer

Interest rates, at their most basic level, are driven by the old laws of supply and demand.

The greater the demand for money, the more lenders can "charge" for that money in the form of interest. When demand falls, lenders charge less in hopes of attracting borrowers.

During recessionary or slow economic times, as we're in now, demand is off, and rates typically fall. Consumers become skittish about taking on more debt and spending money, and so do businesses.

To ease that skittishness and soothe spenders, the Federal Reserve lowers interest rates.

But of course, it's not quite as simple as that.

Don Jud, head of the Finance Department in the Bryan School of Business and Economics at the University of North Carolina at Greensboro, explains the fine line the Federal Reserve must walk:

If rates are cut too deeply or too quickly, a sudden surge in borrowing and spending could occur. That kind of demand for products and services could outpace businesses' ability to supply, which could lead to rapid increases in prices — inflation, which the Federal Reserve desperately wants to keep in check.

But if the interest rates remain too high, the economy can be forced into a depression for a lack of spending and borrowing.

Expectations about inflation are among the key drivers of interest rates, say economists.

"The rate that's set in the market is set partly to compensate you for the inflation that's expected," said Campbell Harvey, associate professor of finance at Duke University's Fuqua School of Business.

Low inflation typically means lower interest rates because lenders can still make a good rate of return on their money, even after inflation is taken into account. If lenders anticipate increased inflation, though, they will demand a higher rate of return on their money.

cided to ride out the storm, having decided that any risk is too much to bear.

Here are snapshots of how five area residents: four retirees and one working mother, people who might be expected to depend most on interest rates, are reacting:

- Dot Runde, 50 and the mother of five children, — one still living at home — never worried about interest rates.

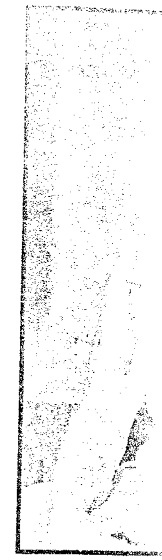
"I didn't have to do anything but hand (my husband) my checkbook each month and have him balance it for me," she said.

When Runde's husband died of liver cancer a year ago, she faced a personal and financial storm.

"It's hard to say which worries you the most: the loss of your mate, your husband (and) your friend or then having to worry about the finances," she said.

After moving from Charlotte, where the family had just moved into a "humongous house with very high payments," back to Greensboro, Runde started to spend more time thinking about how she should invest her money. The more she thought about it, the more certain she was that bank accounts — with rates starting to dip — weren't the best place.

"A bank account was the worst place for it," said Runde, an administrator at Guilford Technical Community College. "I realized very quickly I



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Alternatives to

By RICK BROOKS
Staff Writer

Losing patience with lousy interest rates? With numbers like these — the average money market account pays a meager 5 percent and the average one-year CD a stingy 5.73 percent — many investors have begun looking for better ways to make their money work for them.

Money market mutual funds had about $450 billion in assets as of July 31, according to the Investment Company Institute, down almost 3 percent from June. But other groups of funds

There are
your money i
your earning
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you, as usual.

Remember