



Why banks just don't want your money



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Banks are in the business of making money, so why don't they want you to make more deposits?

by **Mark Garrison** (</people/mark-garrison>)

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For years, people have been making next to nothing in interest on their savings accounts. If they think that's going to change now that the Fed is raising its interest rates, they're going to be very disappointed. Banks are raising the rates they charge on loans in response to the Fed. But they largely are not moving the rates they pay on savings accounts. It may sound a little strange, but banks really don't have more money right now.

Think of that relative that everybody seems to have, always giving people gifts they don't want. They send books to kids not old enough to read. They sign lactose intolerant people up for cheese of the month clubs. Right now, banks see depositors as that person. They really don't want people to give them more money, so they're not going to encourage them by giving out higher rates on deposits.

"The system remains awash in cash and so they don't have a huge incentive to do that right now," explains Mark Hamrick with Bankrate.com, which tracks rates and has the average money market account currently paying a mere 0.1 percent interest.

Big banks not wanting money sounds weird to consumers, because they think of banks as places that hold their money. But banks and their shareholders are in the business of making money.

“They’ll jack up the borrowing rates, but they will not put up the savings rates and that just drops down immediately to the bottom line,” said Campbell Harvey, finance professor at Duke University. “It’s a pure play for profit.”

When big banks have more money than they can profitably invest, encouraging people to save more just drives up cost, eating up profit.

“Things as basic as sending out monthly statements or dealing with customers by telephone or in person,” explained Charles Kenji Whitehead, a Cornell Law School professor and former high-level banking attorney. “There’s a cost and it only makes sense for the banks to do this if they think they can get a return.”

And banks are finding return trickier to get in a time of changing global markets and new regulations.

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Therese S December 18, 2015

Darn! I was hoping to get a few more pennies per quarter.

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