

July 6, 2010 ... Why CD rates are so low

(Reading Eagle)

One reason is because interest rates are low all the way around.

The Federal Reserve Bank sets the interest rate for overnight loans between banks. That rate has remained low for months.

Another reason cited by James Ferry of National Penn Bank on why certificate of deposit rates are low:

If a bank needs capitalization - in other words, more money to expand or to lend to others - it will run a CD special to bring capital into the bank or a money market special to bring in funds.

The money often will fund growth and expansion in the bank or the community. Banks, in turn, take some of the money and lend it out to others building or expanding their businesses. If banks need more money to meet loan demands, they can gain more capital by running a CD special. Of course, there are other ways of increasing capital, but CDs are one way.

CDs usually have higher rates for longer terms and lower rates for shorter terms. But lately that hasn't always been the case.

Why do all the rates look the same?

Justin Pritchard of About.com Guide said that when there's very little difference in interest rates between short-term and longer-term CDs, banks may think that rates are going up so they keep the rates flat. So sometimes shorter term CDs may work out better because your money isn't tied up as long.

- National Penn Bank, About.com