Why aren't you banking online yet? - Oct. 2, 2005

4% interest...why not bank online?
It's not for everyone, but Internet banking has a lot to offer.
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By Shaheen Pasha, CNN/Money staff writer

NEW YORK (CNN/Money) - It seems that everywhere you turn, Internet banks are trying to woo you with the promise of higher returns on your savings.

Are they worth it? Should you ditch the traditional savings accounts you were raised on?

In a word, yes.

High-yield savings accounts have mushroomed on the Internet in recent years.

ING Direct, a unit of ING Groep NV, recently raised its annual percentage yield (APY) to 3.40 percent from 3.30 percent while competitor EmigrantDirect, the online branch of New York-based Emigrant Savings Bank, is offering consumers a whopping 4 percent yield, up from 3.5 percent – making it the highest-yield account available.

Citigroup (Research)’s Citibank, by comparison, offers consumers a mere 0.6 percent APY on their accounts while Bank of America (Research) banking patrons are earning a paltry 0.5 percent annual return.

"Online high-yield savings accounts make an awful lot of sense for those that want to keep their savings accounts growing," said Laura Bruce, senior reporter at personal finance site Bankrate.com. "It doesn't make sense to clip coupons and save a few cents at the grocery story but not take advantage of a higher yield that you don't have to do anything for."

Low opening balances

But high rates aren't the only attraction. Online high-yield accounts can also provide an outlet for consumers that may not have large sums of cash to start building a nest egg.

"The biggest challenge for many consumers in going to a brokerage firm or opening a money-market account is that these accounts can require a minimum balance of $1,000, $5,000 or even $25,000," said David Bach, author of "Automatic Millionaire" and founder of the New York-based financial education company FinishRich.com. "Here you can go online with no minimums and do your savings automatically."

Bank of America customers, for instance, can open a basic savings account for $100 but must maintain a $300 minimum balance or incur monthly maintenance fees. Citibank, likewise has a $500 minimum balance requirement.

But both ING Direct and EmigrantDirect allow consumers to open an account for as little
as $1 and charge no fees if an account falls under a certain balance.

And online savings accounts are also branching out their product lines. ING Direct has long provided customers adjustable-rate mortgages, mutual funds and certificate of deposit accounts.

Arkadi Kuhlmann, chief executive of ING Direct, said the company's mutual funds are not high-performance funds but rather products that help get a consumer started in investing.

EmigrantDirect, for its part, will launch a new credit card in mid-November that the company said will have the "highest cash-back rebate in the country" for those with online accounts, the company said in an e-mail to clients.

**Shop around**

Interested in a high-yield savings account but reluctant to leave your bank? Rest assured, you'll still need a brick-and-mortar bank with an established checking account to link your online savings account.

Bach said wary consumers should talk to their own banks to see if there are higher-yield accounts in the works.

Citigroup, for instance, is piloting the E-Savings account, an online account with a yield of 3.25 percent, to consumers that already have a checking account with Citibank. The banking giant is offering the savings account in a few test markets and will evaluate the outcome, a Citigroup spokesman said.

Commerce Bank, a unit of Missouri-based Commerce Bancshares (Research), provides a 0.25 percent APY on basic savings accounts. But its premium money-market account offers consumers a higher rate once the balance reaches $10,000. At $25,000, an account can earn a 3 percent APY, a Commerce Bank spokeswoman said.

**Some drawbacks**

Of course, consumers should be aware of some disadvantages to Internet banking.

Since the online account is linked to a checking account at a separate bank, there may be a two-day lag time for money transfers between accounts.

And if you're looking to have your hand held, online accounts are not for you. ING Direct, for instance, closes an average of 3 percent to 4 percent of accounts a month, when customers require too much personal service.

"We fire our customers is a colorful way of putting it," said ING Direct's Kuhlmann. "While the banking business says the customer is always right, we're online guys and you can only do business with us in a certain way."

He added that it just isn't cost effective to maintain high maintenance customers that need more personalized attention.

Internet security may also be a concern for consumers particularly as identity theft becomes an increasing problem for the banking industry. But online high-yield accounts generally have security measures in place.

While there is certainly interest among consumers for high-yield online savings accounts, experts aren't expecting the branch network to disappear.

Bach said consumers are still interested in using automatic teller machines and interacting with the teller behind the window. But with higher yields, it certainly can't hurt to open an additional savings account online.

To find out more about competing online high yield accounts, click [here](http://money.cnn.com/2005/10/02/pf/debt/internet_banking/index.htm).
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