Washington Offers No Relief for Savers

Assailed by low savings rates and falling shares, savers find no relief from Washington

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Two giant mortgage companies get into hot water over risky investments. The government steps in to throw them a lifeline should they need it.

David Middleton posses for a portrait in front of his home in Broomall, Pa., Friday, Aug. 15, 2008....
(AP)

Hundreds of thousands of Americans buy homes more expensive than they can afford. Congress approves a rescue package.

Troubles erupt at a Wall Street investment firm that made bad bets on mortgage investments. The Federal Reserve steps in and provides financial backing for the company's takeover.

Meanwhile, tens of millions of people pay their mortgages on time, don't max out their credit cards and put money into retirement funds. They may even save a little extra on the side.

In return, they get rates on their savings that don't even keep up with inflation. They also are witnessing the horror of their nest eggs shrinking as the value of their homes plummets and the stock market tumbles.

Washington policymakers seem more focused on rescuing those who behave badly by putting at risk taxpayers who've played by the rules and shunned the get-rich-quick schemes of Wall Street croupiers.

If the government can toss a lifeline to troubled mortgage underwriters Fannie Mae and Freddie Mac, they why won't they do something for Americans who save their money?

Why aren't the nation's savers storming the Federal Reserve or the Treasury Department or the halls of Congress demanding that something be done for them?

"Perhaps there is a mentality that you can't beat city hall," ponders financial adviser and author Ric Edelman.

Or, maybe it's just that the mentality of people who are savers also helps make them flexible enough to roll with the punches.

"I'm not a crybaby about what goes on in the world," says Cathy Tozzi, 70, a retired school finance director.

The elderly — who are no longer working and are living off their income from savings and other investments — are getting walloped by the current economic hard times.

"People like my mom. You expect them to be upset. People who are doing a lot of saving now versus people who are done saving are two very different groups," said John Huizinga, professor of economics at the University of Chicago's Graduate School of Business.

Tozzi, who lives in Brooklyn, N.Y. has cut back. "I shop at the 99 cent stores. There are ways of saving money." Even so, she worries about inflation "eating into my savings."

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(AP)

People who grew up during the hardships of the Great Depression are from a generation that was more frugal and knew how to save. To them, debt was a dirty word.

"They grew up with the mentality that you make the best of what is handed to you. They don't worry they won't make it to Rome or Paris this year. They will settle for a car trip," says Alan Hilfer, director psychology at Maimonides Medical Center in Brooklyn, N.Y.

The average rate on a one-year CD these days is around 2.3 percent, according to Bankrate.com. However, inflation has been rising closer to 5 percent over the past year, so savers are seeing their returns wiped out.

"Savings are taking it on the chin," says Greg McBride, senior financial analyst at Bankrate.com. "The Fed's rate cuts geared to aiding ailing homeowners with adjustable-rate mortgages have come at the expense of savers and retirees dependent on fixed income," he said. "For the past 12 months, there has been a double whammy for savers as interest rates have fallen and inflation has increased."

The average rate on a savings account is a rock bottom 0.37 percent, Bankrate says. That's even worse than the 0.46 percent rate for the same time last year.

David Middleton and others are so mad about the situation in Washington that they got together and formed the grassroots group, Fed Up USA. The group — whose members number around 40 — have protested in Washington and elsewhere against "federal financial irresponsibility."

Middleton, 32, who once worked in the information-technology field and is now self employed, says he was spurred to put on an "activist hat" earlier this year. That's when the Fed provided a loan of $28.82 billion as part of JPMorgan's takeover of the ailing Bear Stearns. "I was outraged. These companies make their decisions and their bets and they should be responsible for that. They should not be bailed out on the backs of the taxpayers," he said.

He was equally aghast at the sweeping housing-rescue package approved by Congress and signed into law by President Bush last month. The package provides cheaper mortgages to struggling homeowners and lets the government lend money to Fannie Mae and Freddie Mac or buy their stock should they need it.

Cathy Tozzi shops at her local dollar store Friday, Aug. 15, 2008 in New York. Tozzi, who lives in...
(AP)

Mike Shedlock, who writes the popular blog Mish's Global Trend Analysis, urged his readers to contact their elected officials in Washington to vote against the Fannie and Freddie aid package. Some people didn't think it would make a difference in the outcome but they wrote protest letters anyway, he says.

"People are getting disgusted," says Shedlock. At the same time, he acknowledged trying to motivate people to rise up is tough. Shedlock frets that the United States is "being run into the ground in debt" by Washington.

Washington policymakers — in Congress, the Bush administration and at the Fed — should hold banks, investment firms and other involved in the nation's financial debacles accountable for their actions, Middleton said. And, policymakers should bolster their oversight and provide more information to the public.

Middleton said he stakes out evening church events to pass out fliers.

"We really want to get the message out to people," he said.

Getting the word out, may be easier than getting Washington to come around. Middleton has written letters to Fed Chairman Ben Bernanke and his lawmakers in Washington. "I got back the standard form letter ... thank you for your comment," he says.

Bernanke and Treasury Secretary Henry Paulson have said the rescues were necessary to avert a broader financial meltdown. And, the Fed's rate cuts — while providing some relief to distressed homeowners with adjustable-rate mortgages — were aimed at shoring up the wobbly economy. That benefits everyone — savers and the profligate alike.

Older savers may feel that keeping their hard-earned money mostly in a bank is the safest way to go, especially as they watch some of the big nosedives on Wall Street.

Yet, the recent collapse of IndyMac and some other banks is increasing anxiety about that, experts say. "Who is supposed to be more on top of financial things than a bank? But banks made all these terrible mortgage loans and caused these disruptions, and we are dependent on them for our (financial) security," Hilfer says.