Beware the fixed rate bond lock-in

NEARLY half-a-million savers are in danger of having their money locked into poor-paying accounts over the next few weeks.

By **Sylvia Morris**

October is the peak month for fixed rate bonds to mature — with 535,000 coming to the end of their term. Unless savers keep a close eye on what their bank or building society is doing, this cash could be tied up into another bond.

When fixed rate bonds reach the end of their term, some banks and building societies dump your money into easy access accounts with paltry rates of as little as 0.08pc after tax (0.1pc before).

Although the rates are pathetic, you can at least access your money at any time. But increasingly banks try to tie up your money for a further period — in a fixed-rate bond with the same length term as the one that has just finished.

Frequently this rate will be lower than you can earn elsewhere.

Try to take your money out and you could lose up to four months' interest. This practice is big business for savings providers looking to hold on to our money. Jason Riddle, from campaigning group Save our Savers, says: 'Banks are profiting from savers' inertia. It is underhand to lock savers into a low-rate account with no way out, simply because a customer does not react in time.' A huge 4.7million fixed-rate bonds — worth nearly £92billion — mature this year, research from HSBC reveals.

Did you know?
7.3 million cash withdrawals will be made today, with a value of £478 million

Banks and building societies have to write and ask you what you want to do with your money towards the end of the term. If you fail to respond they move it for you.

Some don't write until two weeks before the deadline. Readers frequently get caught out by this — particularly if they are on holiday, or in hospital, when the bond matures.

Chelsea BS has a three-year bond paying 5.2pc (6.5pc) which matures this month. But savers who don't act within 30 days will have their money dumped in to a 15-month bond paying just 2pc (2.5pc). C&G, part of Lloyds, and Coventry BS also roll you over into a new bond and give you 30 days to get it out without paying a penalty.

After that, you lose a huge four months' interest to take your money out before the end of the new term.

Skipton BS, which currently offers a top interest-based one year deal at 2.76pc (3.45pc) has just altered its policy so current bonds go into a new fixed rate deal if you do nothing instead of putting it into an easy-access account.

Yorkshire BS — including Chelsea and Barnsley — also follows this policy on all new bonds. At National Savings & Investment you will earn 1.76pc (2.2pc) in a one-year fixed rate account if you fail to tell it what you want to do by the time your one-year Guaranteed Growth Bond matures.

With Co-op, BM Savings, Britannia, Halifax, Nationwide, Northern Rock and Santander, your money will end up in an easy-access account.

But as a loyal saver, you can end up earning much less than newcomers. Halifax pays 1.6pc (2pc) on its new Everyday Saver but only 0.08pc (0.1pc) in its Matured Bond account.

Find out the best fixed rate bonds at *www.thisismoney.co.uk/save*

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