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Savings bonds explained

**What are savings bonds, how do they work, what are the advantages, the disadvantages and the best deals at the moment?**



Image: Gareth Fuller & Phil Noble - PA

With easy-access savings accounts often paying pathetically low interest rates, is it time to shift your cash into a fixed-rate bond?

We take a look at what fixed-rate bonds are and what they offer.

### **What is a fixed-rate bond?**

Fixed-rate bonds are accounts where you agree to lock your money away for a set period of time, usually between one and five years.

Once you have chosen the how long you want to lock in for, the rate advertised will be fixed for that period. Your savings rate won't increase either, should interest rates rise, but neither will you lose out if the provider decides to lower its general rates later on.

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### **What are the downsides?**

With a fixed-rate bond you have to commit to locking your funds away for your chosen term and cannot make withdrawals.

Many providers will not allow withdrawals or closure of the account until the end of the fixed-rate period. So if you feel you may need to get at your money earlier, either lock it away for a shorter term or keep some money in an easy-access account so you won't leave yourself stuck in an emergency.

If withdrawals or early closure are permitted they are rarely without a penalty: you could lose as much as a year's interest, although this varies depending on the account.

You generally also have to deposit all the money up front, so a fixed-rate bond won't be suitable if you are looking to save on a regular basis.

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#### **The advantages**

Fixed-rate bonds tend to offer higher rates of interest than easy-access accounts because they are far less flexible and the provider knows it has your capital for a set period of time.

The rate is also fixed for the period you choose so it is protected from any rate reductions and doesn't include bonus rates that will be whipped away later on.

#### **The best deals**

For those who are able to lock away their savings without the need to access any of the funds for a longer term, the best deal at present is from State Bank of India. Its five-year Hi Return Fixed Rate Deposit account pays a rate of 5% for deposits starting from £1,000.

For savers looking for shorter term options then ICICI Bank is offering a rate of 4.6% on its three-year HiSAVE account for deposits starting from £1,000. ICICI Bank also offers a rate of 4.1% for those who wish to fix over two years.

If you have slightly less to invest then the Nationwide Building Society is offering 3.45% on its two-year bond for deposits starting from just £1. Its two-year e-Bond offers a slightly higher rate of 3.5%, however you will need to hold a FlexAccount to apply for this deal.

Savers who are only looking to fix for one year should consider Punjab National Bank's 12 month Fixed Account at 3.5% or if you have less than £1,000 to invest then the Post Office offers a rate of 3.3% on their one year product for deposits of £500 or more.

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#### **Anything to remember?**

When your fixed term is coming to an end your provider should contact you to inform you of the options available to you once your account has matured.

ICICI has announced that it will reward customer loyalty: if you choose to reinvest in another fixed-rate account when the term on your existing bond ends, you'll receive a

loyalty bonus of 0.05%. In other words if the rate available when you come to renew is 4.6% for new customers, as an existing customer you would receive 4.65%.

This type of loyalty reward is highly unusual though: often your money will transfer into a default account paying significantly less interest unless you take action and request the funds are moved elsewhere.

Make a note of when your bond is due to mature and before the date of maturity start to shop around and compare rates over different terms. By doing this you will ensure that as soon as your bond matures you will be able to move the funds over to another great deal.

[The full lowdown on your savings options](#)