



On good terms

When it comes to interest rates on your savings big is not always beautiful in the long run.

By John Collett

If you want a good interest rate on a term deposit, be prepared to shop around and look outside the big four banks for a higher rate.

Of the three-year term deposits, Savings & Loans Credit Union pays the best "effective" rate, 7.1 per cent a year, followed by SGE Credit Union with a rate of 7 per cent for deposits of \$25,000.

The effective rate is the figure savers should pay attention to as it's the rate that is actually earned. It takes into account the frequency that interest is paid. Of term deposits advertising the same "nominal" rate, the term deposit with the highest frequency of interest payments will have the highest actual, or effective, rate.

Canstar Cannex data shows the Bank of Cyprus Australia and UBank (owned by NAB) pay the best one-year term deposit rate, of 6.6 per cent for \$25,000. Of the big banks, ANZ's one-year term deposit with an effective rate of 6.2 per cent is highest-paying, followed by St George with an effective rate of 6.15 per cent.

Over three years, NAB has the highest-earning term deposit for \$25,000 with an effective rate of 6.33 per cent, followed by St George and Westpac with 6.3 per cent.

GOVERNMENT BONDS

Government bonds are another option for those with big amounts to invest and who are worried that the government may lower the limit of its deposit guarantee on October 12 (see box).

Bonds issued by the federal and state and territory governments generally require minimum investment amounts of between \$1000 and \$20,000. They are regarded as the safest of all investments (the government can raise taxes) but pay lower interest rates than term deposits.

Fixed-interest broker FIIG Securities says Commonwealth government bonds are paying between about 4.7 per cent for terms of six months and up to 5.3 per cent for terms of five years.

State and territory government bonds pay a bit more (up to about 6 per cent over five years) because their taxing ability is not as strong as the federal government's. Bonds issued by the Commonwealth government can be bought by small investors (minimum \$1000) through the Reserve Bank. Current offers and applications to purchase can be made at rba.gov.au/fin/services/bond-facility.

Bonds from state and territory governments can be bought directly from the various governments issuing

them. Small investors can buy Queensland government bonds from the Queensland Treasury Corporation website for minimum amounts of \$5000. Northern Territory bonds are available from the Territory Bonds website. State government bonds are available from the NSW Treasury Corporation, South Australian Government Financing Authority and Western Australia Treasury Corporation. Victoria does not offer its public bonds directly to the public, who must go to a fixed-interest broker.

Government bonds can be sold at any time through a fixed-interest broker but investors pay a brokerage fee.

Most bonds can be bought on the secondary market through fixed-interest brokers. But it's important to understand that if interest rates rise, the price investors receive for the bond will be less than what was paid for it.

On the other hand, if rates fall, the sale price will be more.

Investors who hold bonds until the end of the term receive their capital back, regardless of any movement in interest rates.



Under lock and key ... government bonds are seen as the safest of all investments.

Illustration: Karl Hilzinger



90 DAY TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
Laiki Bank	6.50	6.50
HSB	5.80	5.80
SGE CU	5.75	5.75
Bank of Cyprus	5.60	5.60
Greater Bldg Soc	5.60	5.60
IMB	5.60	5.60
Maitland Mutual Bldg Soc	5.60	5.60
Hunter United CU	5.60	5.60
Select CU	5.60	5.60
Macquarie Bank	5.60	5.60

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT

1 YEAR TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
Bank of Cyprus	6.60	6.60
UBank	6.41	6.60
SGE CU	6.50	6.50
Citibank	6.50	6.50
ING DIRECT	6.50	6.50
RaboDirect	6.35	6.50
Hunter United CU	6.27	6.45
Select CU	6.25	6.43
Teachers CU	6.25	6.43
Bananacoast Community CU	6.40	6.40

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT

Uncertainty over lower limit

The government guarantee on deposits of up to \$1 million per financial institution is due to end on October 12 this year. It intends to make the guarantee permanent and the \$1 million limit may be reduced.

The managing director of term deposit broker, The Term Deposit Shop, Grant Goodier, says a lower limit would be a great way to foster competition because those with larger amounts of money would be forced to spread it around. "If the

government reduced the limit to \$100,000, people with \$400,000 or \$500,000 would be forced to move behind the major banks," he says.

Some savers with \$1 million have asked Goodier for terms of less than 6 months fearing that the limit will be lowered. "[They] would be happy to take much longer terms because of the good interest rates that are on offer." Goodier thinks it highly unlikely that the guarantee limit will drop any lower than \$100,000.

3 YEAR TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
Savings & Loans CU	6.88	7.10
SGE CU	7.00	7.00
Bank of Cyprus	6.80	6.80
Teachers CU	6.60	6.80
Bananacoast Community CU	6.70	6.70
Gateway CU	6.50	6.70
AMP Banking	6.40	6.56
Bank of Queensland	6.55	6.55
Greater Bldg Soc	6.45	6.55
CUA	6.35	6.54

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT

90 DAY TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
ANZ	5.60	5.60
Commonwealth Bank	5.60	5.60
NAB	4.00	4.00
Westpac	3.00	3.00

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT

1 YEAR TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
ANZ	6.11	6.20
St George Bank	6.15	6.15
NAB	5.95	6.11
Commonwealth Bank	6.10	6.10
Westpac	6.10	6.10

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT

3 YEAR TERM DEPOSIT \$25,000

	Nominal Rate(%)	Effective Rate (%)
NAB	6.15	6.33
St George Bank	6.30	6.30
Westpac	6.30	6.30
ANZ	6.11	6.20
Commonwealth Bank	6.20	6.20

SOURCE:WWW.CANSTARCANNEX.COM.AU, 14TH JAN 2011, BASED ON \$25,000 DEPOSIT