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Rate boost for cash Isa savers

The new tax year promises the best returns since 2009 as banks launch eye-catching deals paying up to 4.25% interest

Esther Shaw Published: 8 April 2012

Each saver can shelter £5,640 tax-free in cash Isas this year (Ryan McVay)

SAVERS looking to invest their tax-free allowance for the new financial year are benefiting from the best returns on cash Isas for three years.

Figures from Moneyfacts, the data firm, show the average interest rate on a cash Isa is currently 1.78%, compared to 1.62% at this point last year, and 1.37% in 2010.

Separate research from moneysupermarket.com, the comparison site, shows the best easy-access Isas pay an average 3.3%, up from 3.17% last year.

Savers have been encouraged to open a new cash Isa to take advantage of the increased annual tax-free allowance, which rose from £5,340 to £5,640 at the start of the new tax year on April 6.

Yesterday, Nationwide building society introduced an instant-access cash Isa paying an eye-popping 4.25%, equivalent to a gross rate of 7.1% for a higher-rate taxpayer, and 8.5% for someone paying tax at the top rate.

The account comes with a bonus of 2.25% interest until October 2013. It also has a guarantee to pay at least 1.5% above Bank rate until January 2014. It is available only from Nationwide branches and does not allow transfers in of existing Isa funds. The Isa is available only to those who hold a Nationwide current account.

Kevin Mountford from Moneysupermarket said: "There was a time when cash Isas paid lower rates than taxable savings, but this hasn't been the case of late. Banks are prepared to offer inflated rates in the fight for our cash."

The AA, which is backed by Lloyds Banking Group, is launching an online-only, instant-access cash Isa on Tuesday with a rate of 3.5% and a 3% bonus for the first year. It does not allow transfers in.

Andrew Hagger from Moneynet, the price comparison service, said: "Savers should move quickly to take advantage of the current crop of eye-catching rates. In previous years, some of the best deals have been withdrawn by May."

However, banks increasingly use introductory bonuses to inflate headline rates. Shorter-term fixes have risen slightly in the last year. The best one-year rate is 3.5% from Santander. Last year, the top deal was from the Bank of Cyprus at 3.3%.

Longer-term fixes, though, have dipped. The top five-year, fixed-rate deal is with Halifax, at 4.5%, down from BM Savings' 5% last year.

Best instant-access Isas

Santander has the best-buy instant-access Isa that allows tranfers in of existing Isa balances. It is paying 3.3%, including a 2.8% bonus for 12 months.

David Black from Defaqto, another data firm, said: "Take advantage of introductory bonuses, but remember to review your deposits when the bonus ends."

The website savingschampion.co.uk has a free service that alerts you if your rate expires or is changed by the bank.

The best "clean" account without an introductory bonus is from Marks & Spencer at 3%. It also accepts transfers in.

Best fixed-rate Isas

The best one-year fix is also from Santander, at 3.5%, and allows transfers in. The top two-year fix is from BM Savings, at 4.05%, while Halifax offers 4.5% for five years. Both accept transfers in.

Best taxable accounts

The best rate on an instant-access taxable account is 3.15% with the Online Saver 2 from Coventry building society, including a 1.15% bonus for the first year. It permits only four penalty-free withdrawals a year.

Aldermore is paying 3.55% on its one-year, fixed-rate bond, BM Savings offers 3.9% on its two-year bond, and the AA is paying 4.6% on its five-year bond.

Santander tightens mortgage criteria — again

Homebuyers will find it harder to qualify for a mortgage with Santander after Britain's second-biggest lender quietly imposed strict new acceptance criteria in recent weeks.

If you have personal loan or credit card balances, but agree to pay them off to qualify for a mortgage, Santander will no longer remove those payments from its calculations of how much you can borrow.

This comes weeks after the Spanish-owned bank changed its policies to ask prospective borrowers how much they spend on "non-regular" costs, including birthdays and religious holidays, such as Easter and Christmas, as part of its affordability checks.

Ian Gray at largemortgageloans.com, the broker, said: "Santander says the change is because of the risk that borrowers will run up the debts again afterwards. It means people must plan early, pay off their debts, and wait until they disappear from their credit history before submitting a loan application."

Gray said that it would take about three months from paying off a debt for this to be reflected on your credit file.

Santander said: "Following a review of our lending policy, we will now take into account all existing credit and loan commitments held by the customer."