Up-side to rising rates

Cash is back and the biggest beneficiaries are older South Australians, writes Smart Money Editor Anthony Keane.

SUB-PRIME is not a dirty word among many baby boomers. While problems in the United States sub-prime mortgage sector have forced home loan interest rates up and shaken global financial markets, thousands of mortgage-free over-50s are watching their bank deposit accounts multiply.

Interest rates paid on deposit accounts are at their highest level since the mid-1990s.

It is not only official Reserve Bank rate rises that are pushing interest up.

Australian Central chief executive Peter Evers says financial institutions have been hit by higher costs to borrow money on the wholesale mortgage market so they are trying to fund a greater proportion of their loans using customers' deposits instead.

This means that interest paid on term deposits, online savings accounts and other deposits has climbed between 0.3 and 0.5 percentage points more than the official rate rises since the middle of last year.

"The competition in the retail deposit market has increased materially since July - the only way to attract more cash investments is by increasing interest rates," Mr Evers says. "We think deposit rates will stay at higher levels than they have been over the last two to three years but we wouldn't expect them to increase much more than they are today."

The best interest rates, according to infochoice.com.au, can be found in term deposits and online savings accounts. Infochoice's database shows online savings accounts are offering up to 7.5 per cent annual interest while many banks and credit unions are paying more than 7 per cent on term deposits for one year.

But just because deposits are paying well, it doesn't mean that it is time to sell up all other investments, such as property and shares, and put all your money into cash.

Adelaide financial strategist Theo Marinis says returns from cash and fixed interest products in the past year had been better than some growth assets, such as international shares and listed property trusts, but people should still diversify their investments.

"The last thing you want to be doing is selling down growth assets in a mad panic to chase the latest hot performer, which happens to be cash and fixed interest," Mr Marinis, of Marinis Financial Group, says.

However, any lazy money sitting in low interest bank accounts and cheque accounts should be transferred to take advantage of higher rates.

"Why would you leave it in a bank account or cheque account earning nothing when you can get six or seven per cent," Mr Marinis says. »

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