Peak interest rates! This 5.6% savings account is now UK's best - but it won't last long

On Friday I wrote an article saying the UK's best buy fixed rate savings bond was living on borrowed time. Within hours, it had gone.

By HARVEY JONES

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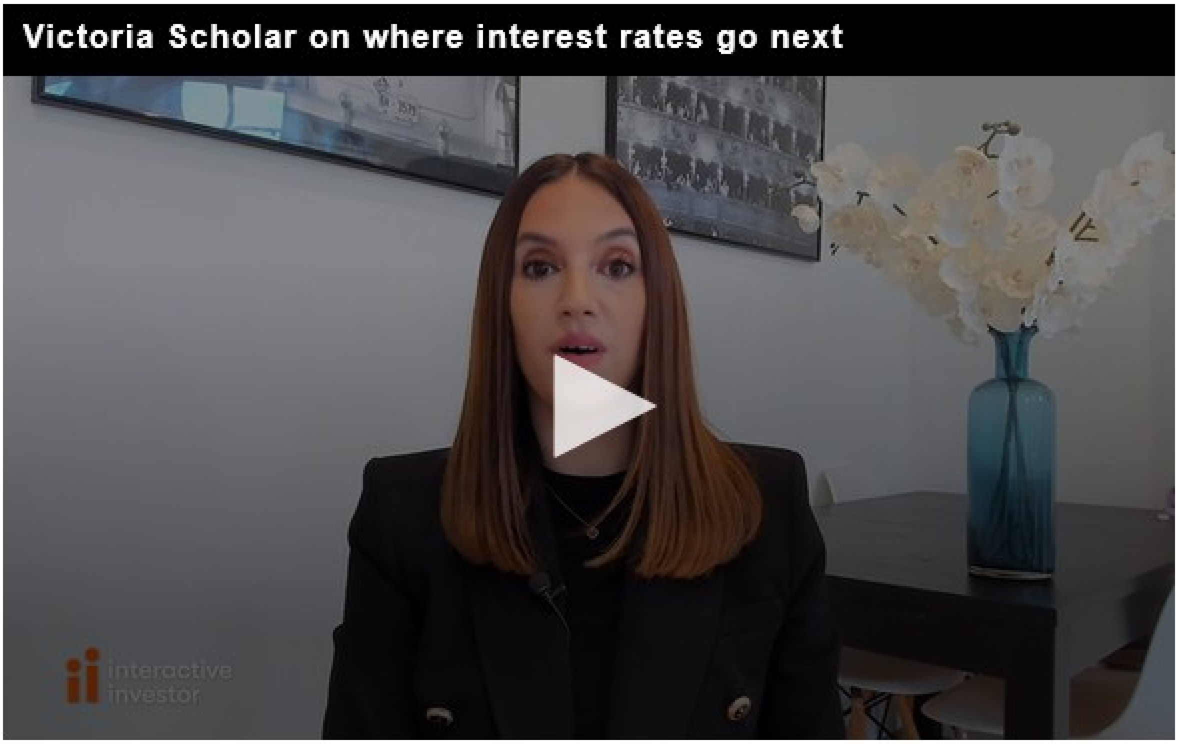

Better get used to it. This trend is set to continue as evidence grows that we have hit peak interest rates and the next move will be down rather than upwards, as I've repeatedly warned. The process has been going on for some months now.

Last week, the Bank of England froze base rates at 5.25 percent for the second month in a row.

While governor Andrew Bailey warned the BoE could still hike rates again if inflation remains stubbornly high, others take a different view.

Ros Altmann, former Pensions Minister turned campaigner, said it is time to stop hiking. “It is hard to understand why rates would need to increase yet again, in the face of major global tensions, a slowing economy and already significant tightening.”

She called on Bailey to consider an early rate cut to avoid the "dangers of our highly indebted economy being saddled with overly tight monetary policy for too long".

Markets expect inflation to plunge from 6.7 percent to less than 5 percent when October's figure is published on November 15, as last autumn's energy price spike falls out of the annual figures.

If that comes through it would signal brighter days for borrowers and stock markets, but would hit savers who should take advantage of today's best buy rates while they can.

The market is now pencilling in an interest rate cut next summer but savings rates are likely to start falling well before then.

Savings rates are at a 15-year high but as interest rate expectations fall, they will surely follow.

It's not longer possible to get six percent a year for five years (Image: Getty)

Just a couple of months ago, it was possible to get around six percent a year from a five-year fixed rate savings bond.

On Friday morning, Moneyfacts was still showing that JN Bank had a five-year fixed rate savings bond paying 5.80 percent.

I wrote a piece for the paper saying this was now an outlier, with second-placed Hanley Building Society paying a significantly lower 5.50 percent.

I said that locking into a long-term fixed rate today could give savers an inflation-beating return all the way through to 2028, and those who could tie their money up until then should consider going for it.

When I checked this morning that JN Bank had already slashed the rate on its account to 5.60 percent. It's still a best buy, just not as good as it was.

Someone investing £10,000 will now get a total return of £13,131 over the five-year term. Before they would have got £13,256, some £125 more.

That's not a massive difference but still worth having.

For those who cannot tie up their money for such a lengthy period, Vanquis Bank offers a best buy one-year fix paying 5.95 percent. Yet just a few weeks ago, savers got 6.20 percent from National Savings & Investments.

The direction of travel is clear.

Savers must act fast to lock in today's top rates, said Tobias Gruber, savings expert and chief executive at My Community Finance. "This is a golden opportunity but you have got to make your move now."

Do not just accept what you own provider is paying, he advised. "Compare your options among traditional banks, building societies, online banks, and credit unions. Act now before the best deals vanish."

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For those wanting easy access, Beehive Money pays 5.20 percent and Paragon Bank pays 5.16 percent today.

Mortgage rates have also been falling in recent months, and this trend is likely to continue, albeit at a slower pace.

This will offer some relief for those whose cheap fixed-rate deals expire soon, said Victor Trokoudes, founder of smart money app Plum. "Those who opted for a tracker or variable rate will also be breathing a sigh of relief."

Rates are still much higher than they were, with the average two-year fixed charging 6.29 percent and five-year deals at 5.87 percent, according to Moneyfacts.

However, shopping around saves money with Yorkshire Building Society offering a fixed rate of 5.24 percent for two years, and 4.77 percent for five, both up to 75 percent loan-to-value (LTV) with £1,495 product fees.

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Trokoudes added: "Even with no further rises, homeowners will have to pay much higher rates than before."

David Hollingworth, associate director at L&C Mortgages urged borrowers approaching the end of their current deal to shop around to ensure they have a new deal in place. "This should help avoid an expensive period on a standard variable rate which can charge up to 9 percent."

Uswitch.com mortgage expert Kellie Steed urged borrowers to overpay if they can to reduce their LTV, and talk to their mortgage lender if struggling.

Interactive Investor head of investment Victoria Scholar said as interest rates peak stock markets may pick up. "This will boost both pension and stocks and shares Isa values."

We will soon be entering a new world for both savers and borrowers, so make sure you are ready for it.

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