

Breaking a term deposit

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Term deposits are a common form of investment where you deposit your funds with a bank or other banking service provider for a fixed period of time and receive a fixed rate of interest. The interest rate is often higher than offered on online, call, and savings accounts, depending on the term chosen.

Can I break my term deposit?

One of the key features of a term deposit is that the funds are locked in for a fixed period of time.

Financial service providers are not legally required to allow customers to break term deposits (in other words, pay out the funds early). Whether or not you are able to break your deposit will depend on the contract you have with your provider. In most cases, you can only break your deposit if your provider agrees.

Some providers offer a 'cooling off period' when you first take out the term deposit. During this period, you generally have the right to cancel your term deposit and have your principal repaid to you without interest.

Your bank may require you to give a certain period of notice before it will let you break your term deposit early. If you can demonstrate you are in hardship, you may be able to withdraw your funds without giving notice.

What will happen if I break my term deposit?

If your provider agrees to break your term deposit, it will most likely reduce the interest rate on the funds you're withdrawing. It may also seek to recover interest that was paid at the higher rate during the term of the deposit. The reduction in interest may depend on the amount you deposited, current interest rates, and the length of the investment term.

What should I do before I invest my money in a term deposit?

It is important that you read the investment statement and any relevant terms and conditions before you agree to invest your money in a term deposit. If you are not clear on whether there is a cooling off period or what you may need to do to break your deposit early, check with your provider before depositing your funds. Similarly, if you think there is a chance you may need to break the term deposit

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early, you may want to choose a shorter term or explore other options: some savings accounts may actually pay a higher amount, especially if the term is short.

Case note 1

Mr S wanted to break his term deposit early and use a portion of it to purchase property. He asked the bank if there would be penalties and was told he would receive interest on the remaining term deposit funds over the rest of the term. On settlement day, however, Mr S was told he had to pay a \$7,000 interest recovery fee.

The bank referred to its terms and conditions which stated it could charge the fee. We agreed with this, but considered the bank's failure to alert Mr S to such an important term may have misled him. We therefore considered it a likely Fair Trading Act breach.

To resolve the complaint we took into account Mr S's position that he would not have purchased the property had he been fully aware of the fee.

Of course, it was not reasonable or practical to reverse the property purchase and we considered Mr S had equally benefitted from breaking the term deposit by being able to buy the property.

We did, however, find that Mr S had been inconvenienced by the bank's failure to give correct advice, and discovering the interest recovery fee on settlement day would have been stressful. We therefore recommended compensation of \$750, which Mr S accepted.

Case note 2

Mr W had \$200,000 to invest and thought he would probably buy property. He wanted to be able to get access to his money if necessary and set up a 12 month term deposit for \$100,000 at two different banks.

Before he did so, he asked both banks whether there would be penalties if he broke the term deposits early. Both said he would receive a reduced interest rate but no further penalty.

During the term, Mr W decided to buy a property. He broke the term deposits to do so and was satisfied with what he received from Bank A, but not Bank B as he received significantly less. Bank B told Mr W it had applied a standard interest rate reduction as set out in the term deposit investment statement, and there had been no further break penalty.

We looked at how Bank B had applied its interest rate reduction and concluded it was correct even though it varied from the other bank. Mr W accepted this and agreed to withdraw his complaint.

Case note 3

Mr W's bank informed him it was introducing a new policy that required him to give notice before withdrawing a term deposit early. This policy was to apply to all existing and new term deposits.

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Mr W believed the policy shouldn't apply to existing term deposits, as it was unfair for the bank to change his contract without his permission. As a general rule, a contract cannot be varied without the consent of both parties unless the contract says one party can make changes without the permission of the other.

Mr W's contract with the bank was the investment statement which said the bank could agree to an early withdrawal or it could decline the request. This term of the contract had not changed. Rather, it was the policy around early withdrawals, in particular the requirement to provide advance notice, that had changed.

We could not therefore uphold the complaint because the bank had not changed the contract.

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