

Current accounts – the best deal for you

Too many of us put up with terrible interest rates, rather than switching accounts

Many Which? members switch savings accounts or mortgage providers to find a better deal, yet they stick with the same current account for years.

In July 2009, we asked 2,238 online members about current accounts. We found that nearly three-quarters have never switched. If that's you, the chances are you're missing out on the best deals.

Our latest research shows big differences between banks on levels of service, interest rates and charges. First Direct offers as much as £100 if you switch.

If you always stay in credit

You can earn up to 6% interest a year on the first £2,500 in an Alliance & Leicester Premier Direct account (a Which? Best Buy), if you stay in credit. However, this plunges to 1% after a year.

To qualify, you must pay at least £500 a month into the account, but it also provides good customer service.

For a more consistent rate, Best Buy Cahoot offers 1% (1.1% without a cheque book) and the Lloyds TSB Classic Plus offers 2.5%.

A&L's Premier pays just 0.5% interest but offers free annual European travel insurance for under-65s.

Halifax's Reward Current Account gives you £5 a month, if you pay in more

IN BRIEF

In this report we help you to:

- choose the current account that's right for you
- find the cost of authorised and unauthorised overdrafts.

SWITCHING FOR BETTER SERVICE



David Elliot, 67, retired

David Elliot, of Gosforth, decided to switch his current account because he felt that the service from his former bank, Halifax, had deteriorated gradually.

Problems that had previously been resolved on the spot were now taking days and sometimes weeks to sort out, so he decided to switch.

David says: 'After some online research and talking to friends,

I chose First Direct. Its attitude was exemplary.

'Every step of the transfer was explained in easy-to-understand language. It sent me a list of my current direct debits and standing orders to make any amendments.'

He says: 'The only document I had to complete was to contact any companies from which I received income.'

FASTER PAYMENTS



More than half of Which? members in our survey said that speed of transactions is a deciding factor in which bank they put their money with.

A new system, Faster Payments Service (FPS), can transfer money on the same day, rather than the three working days it used to take.

But in April's *Which? Money*, we found that many banks have yet to introduce FPS and sadly, little has

changed since then. Unfortunately, whether you can use faster payments will still depend on who you bank with.

Some providers, such as Abbey and Northern Road, can't send money by FPS. Lloyds TSB operates FPS only via telephone banking, while NatWest, RBS and HSBC operate full FPS.

If you're unsure whether your bank offers FPS, call it and ask.

Going even a little overdrawn with Halifax's Reward Account can be expensive

than £1,000 a month. But be warned, go even a little overdrawn and this could be an expensive choice (see below).

If you arrange an overdraft

An overdraft isn't a cost-effective way to borrow for the long term, but it can add flexibility to your everyday finances. But by how much do charges vary? To find out, we looked at how much a £500 authorised overdraft would cost for two weeks a month over a year. We found:

■ £1-a-day charges

Halifax and Bank of Scotland's 'Reward Current Account' charges £1 a day for each day you're overdrawn. In our scenario that's £168 of charges, an effective APR of 73% over the year. The account does pay you £5 for each month where you pay in £1,000.

■ Highest charges

First Trust Bank in Northern Ireland (£268), Bank of Ireland (£111) and Northern Rock (£110) charge the most.

■ Big increase in charges

A £500 overdraft with Alliance & Leicester Premier Direct costs £60 a year – four times more than two years ago – because of a change in how it charges for overdrafts, although it does offer 12 months interest free.

■ Rising overdraft costs

Using our scenario and comparable accounts in our survey, the average cost of an authorised overdraft has increased from £48 to nearly £54, roughly 12% in the past two years.



If you're regularly overdrawn, Citibank offers a £500 interest-free overdraft as standard, while, for the short term, Alliance and Leicester offers the first 12 months interest free.

If you regularly bust your limit

The costs of an authorised overdraft pale beside charges for exceeding your limit.

Charges tend to be high overall, but vary considerably between banks. Charges often include an initial fee for exceeding your limit, an extra fee per item paid over this limit, and another fee for an item bounced, such as a cheque.

We took a basic scenario – three £10 payments over the overdraft limit, such as a standing order or direct debit, to compare what banks will charge you.

NatWest/RBS is the most expensive, charging a fee for exceeding your over-

CURRENT ACCOUNTS	ACCOUNT DETAILS		OVERDRAFT	SATISFACTION	BEST BUY FOR		
	MINIMUM MONTHLY FUNDING (£)	CREDIT INTEREST ON £1,000 (%)	ANNUAL INTEREST RATE (%)	OVERALL CUSTOMER SATISFACTION (%)	CREDIT INTEREST	SMALL OVERDRAFT	LARGE OVERDRAFT
SMILE^a	see ^b	0.12	15.90 ^c	91		✓	
CAHOOT		1.00 ^d	11.80	84	✓	✓	✓
THE CO-OPERATIVE BANK Plus	800	0	15.90	84		✓	
NATIONWIDE BS FlexAccount		0	18.90	79		✓	
YORKSHIRE BANK Plus		0	16.95	68		✓	
ALLIANCE & LEICESTER Premier Direct ^{a,e,f}	500	6.00 ^g	See ^h	64	✓		
ALLIANCE & LEICESTER Premier ^a	500	0.50	See ^h	64	✓		

^a Includes benefits such as exclusive deals on their other products ^b You must pay in a regular amount (eg wage, salary, pension, etc) ^c 12-month £500 fee-free overdraft ^d 1.1% without a chequebook ^e Must register for this account with a valid email address ^f No paper statements available. Account transactions must be viewed using internet banking ^g Paid on credit balances up to £2,500 for a year ^h 12-month free overdraft, then 50 pence per day (£5 maximum per month). Rates correct at 27 July 2009

draft (£28) plus £30 per item paid. So, for three £10 payments above the overdraft limit, you'll pay £118 in charges – that's about four times the amount. Such high charges show the importance of arranging borrowing limits in advance.

Which? believes unauthorised overdraft charges are excessive. There is a dispute over them between the Office of Fair Trading (OFT) and seven banks and one building society. But even if banks have to change their fees, it will be some time before consumers get money back.

Complain to your bank if you've had excessive unauthorised overdraft fees in the last six years. See our site www.weownthebanks.co.uk for what to do.

Packaged accounts

As banks try to recoup recent losses, you may well hear the words 'have you considered upgrading your current account?' when you contact your bank. These upgrades are packaged accounts which charge fees – typically £10-£20 a month.

For this, you sometimes get perks such as travel insurance, and maybe an extra benefit such as one or two free passes to an airport lounge (Abbey Travel Reward Account). If you use at least two of the main benefits offered, they're worth looking into, though you're often better off with a Best Buy free account.

Contacts

Abbey 0800 587 2758
www.abbey.com
Alliance & Leicester
 0500 646464
www.alliance-leicester.co.uk
Barclays 0800 400100; www.barclays.co.uk
Cahoot www.cahoot.com
Clydesdale Bank 0800 222426
www.cbonline.co.uk
First Direct 0800 242424
www.firstdirect.com
Halifax/Bank of Scotland 0845 720 3040
www.halifax.co.uk
HSBC 0800 130130; www.hsbc.co.uk
Lloyds TSB local branch www.lloydstsb.com
Nationwide BS
 0800 302010; www.nationwide.co.uk
NatWest 0800 200400; www.natwest.com
Northern Rock; 0845 600 7301
www.northernrock.co.uk
Norwich & Peterborough BS
 0845 300 2511; www.npbs.co.uk
Royal Bank of Scotland 0800 121129
www.rbs.co.uk
Smile n/a; www.smile.co.uk
The Co-operative Bank 08000 284284
www.co-operativebank.co.uk
Yorkshire Bank 0800 202122
www.ybonline.co.uk

Switching is easier than you think

If you're not getting the best deal with a financial product, vote with your wallet, and switch. Many people are reluctant to switch current accounts due to concerns about problems with direct debits and standing orders. But a *Which?* Money survey of 6,347 members in May 2009 found that more than three quarters of

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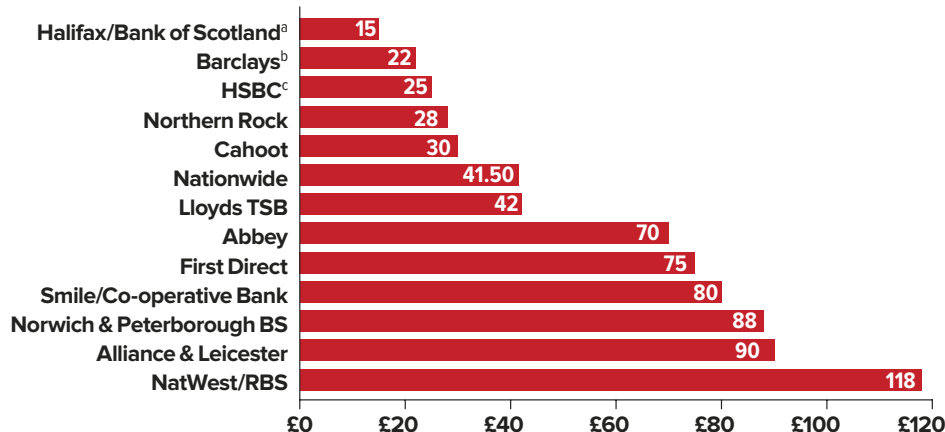
Are packaged bank accounts worth the cost?

www.which.co.uk/packagedaccounts

those who switched found it very or fairly easy. Under the Banking Code, your old and new bank must help you switch and should cancel charges caused by problems transferring direct debits or standing orders. With poor interest rates on many accounts and a wide range of charges, this is a great time to switch. Visit www.which.co.uk/currentaccounts for more.

Unauthorised overdraft charges (£)

You pay heavily for going overdrawn without arranging it with the bank first



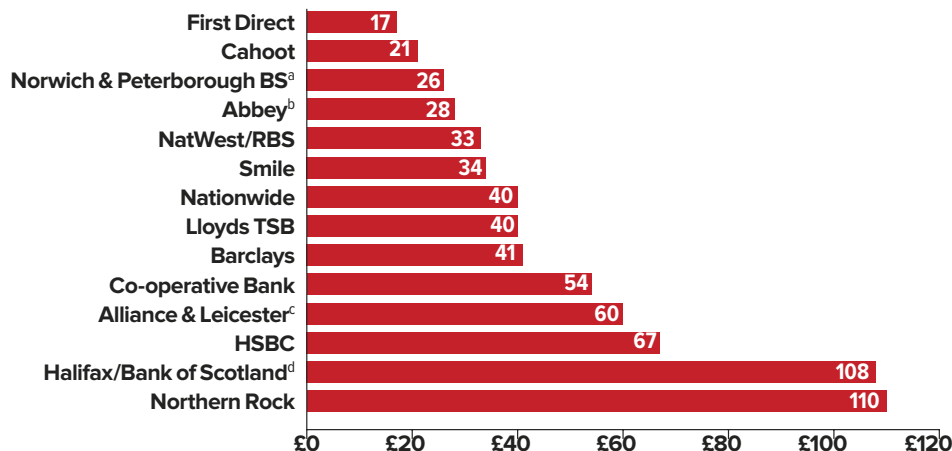
This shows what banks in Britain charge for an unauthorised overdraft of £30 for three days, including charges for a £10 cheque on day one, a £10 direct debit on day two and a £10 standing order on day three that the bank pays. Figures don't include interest.

^a If account funded with £1,000 a month, customer gets a £5 credit monthly regardless of unauthorised borrowing.

^b £22 reserve usage fee (one fee per five consecutive working days). ^c Assumes customer has had an overdraft review in the last six months. HSBC doesn't charge for paid items of £10 or less, but charges would be applied for paid items of more than £10.

Authorised overdraft charges (£)

The charges that you pay per month for an arranged overdraft vary widely



The table shows the annual cost of a £500 authorised overdraft for two weeks a month with British banks, assuming you pay in £1,000 a month. ^a Norwich & Peterborough's Gold Account (monthly funding £500) ^b Abbey's Preferred Overdraft current account ^c Cost of overdraft after first year ^d Including £5 a month that Halifax credits to your account if you pay in £1,000