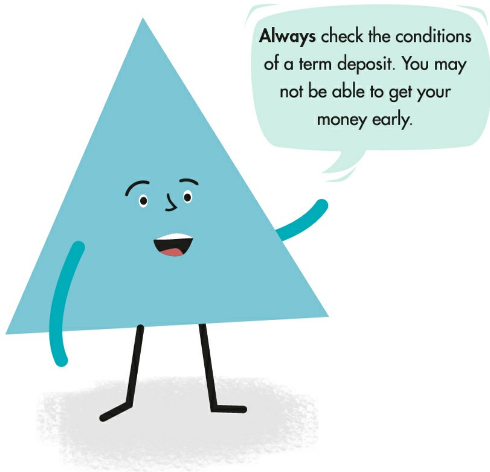
Breaking a term deposit

Term deposits lock in your funds, so think carefully beforehand – especially since it is usually at the bank's discretion whether to give back your money early.



A term deposit locks in funds for a fixed period of time, although usually at a higher interest rate than online, call or savings accounts. Banks do not legally have to allow customers to break term deposits, that is, give back the money early. Whether you can break your deposit will depend on the terms of your contract with the bank. In most cases, you can do so only if the bank agrees.

Some banks offer a cooling-off period, during which you can cancel your term deposit and get back your principal without interest. Some banks require a certain period of notice before letting you break your term deposit (although proving hardship may avoid such notice).

Consequences

If the bank agrees to break your term deposit, it will probably reduce the interest rate on the funds you're withdrawing. It may also seek to recover interest that was paid at the higher rate while it had the money. The reduction in interest may depend on how much you deposited, current interest rates and the length of the investment term.

Before you commit

Read the investment statement and any relevant terms and conditions before you agree to invest your money in a term deposit. If unclear whether there is a cooling-off period or what you may need to do to break your deposit, ask your bank first.

If there is a chance you may need the money before the term expires, consider a shorter term: some savings accounts may actually pay a higher amount, especially if the term is short

If you might need your money before the term expires, it may be better to consider a shorter term option like a savings account.

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