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Great for borrowers but awful for savers

YESTERDAY'S shock interest rate cut of 1.5 per cent might have been good news for mortgage borrowers – but it is another blow for savers.

The fall is likely to drag down saving rates on accounts already under pressure from hard-up banks and plummeting share values.

At least 15 building societies used yesterday's opportunity to withdraw fixed rate bond products and analysts said few savers could escape cuts in their interest rates.

'The banks will no doubt be falling over themselves in the rush to cut savings rates,' said Doug Taylor, of consumer group Which?

High street bank saving rates soared to up to seven per cent on the back of the recent credit boom.

But savers have seen diminishing returns in the past few months as interest rates fell and struggling banks looked to squeeze customers.

'The rate cut can't be good for cash savers. And people who are long-term savers, or have pension savings, need to be investing in commodities, such as gold, in order to keep up with inflation,' said Jonathan Davis of financial adviser Armstrong Davis.

However, saving rate cuts were likely to be tempered by banks' need to attract customers in an increasingly tough market, analysts said.

Meanwhile, there was good news yesterday for savers who lost money following the collapse of Iceland's major banks last month.

Chancellor Alistair Darling paid the Financial Services Compensation Scheme £800million so it could begin reimbursing the 230,000 Britons affected.