



FREQUENTLY ASKED QUESTIONS

Date : Jul 13, 2002

Frequently Asked Questions (FAQ) relating to Reserve Bank's Instructions on Banking matters

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Co-operative Banking
Non-banking
Financial Inclusion and Development
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Department of Banking Operations & Development
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I. DOMESTIC DEPOSITS

1. Whether banks can accept interest free deposits?

Banks cannot accept interest free deposits other than in current account.

2. Whether banks can pay interest on savings bank accounts quarterly?

Banks can pay interest on savings bank accounts at quarterly or longer rests.

3. Whether banks can pay interest on term deposits monthly?

Interest on term deposits is payable at quarterly or longer rests. Banks can pay interest monthly by discounting the quarterly interest accrued.

4. Whether banks can pay differential rates of interest on deposits aggregating Rs.15 lakhs and above?

Differential rates of interest can be paid on [single deposit](#) of Rs.15 lakhs and above and not on the aggregate of individual deposits where such total exceeds Rs.15 lakhs.

5. Whether banks can pay commission for mobilising deposits

Banks are prohibited from employing / engaging any individual, firm company, association, institution for collection of deposits or selling of deposit linked products on payment of remuneration or fees or commission in any form or manner except **commission** paid to agents employed to collect door to door deposits under a special scheme

6. Whether banks can prematurely repay the term deposit on their own?

The term deposit is a contract between the bank and the customer for a definite term and it cannot be paid prematurely at bank's option. Term deposit can be paid prematurely at the request of the customer.

7. Whether banks can refuse premature withdrawal of term deposits?

Banks may not normally refuse premature withdrawal of term deposits of individuals and Hindu Undivided families, irrespective of the size of the deposit. However, the bank at its discretion, may disallow premature withdrawal of large deposits held by entities other than individuals and Hindu Undivided Families. Banks should notify such depositors of its policy of disallowing premature withdrawals in advance i.e. at the time of acceptance of deposits

8. Whether banks can levy penalty for premature withdrawal?

Banks have freedom to determine their own penal rates of interest for premature withdrawal of term deposits.

9. How and when banks are required to pay interest on the deposits maturing on holiday/non-business working day/Sunday?

Banks should pay interest at the originally contracted rate on the deposit amount for the holiday/Sunday/Non-business working day intervening between the date of expiry of the specified term of the deposit and the date of payment of the proceeds of the deposits on the succeeding working day.

10. Whether banks can pay additional interest admissible to bank's staff on the deposit placed in the name of minor child/children of the deceased member of staff?

No. Children (including minor) are not eligible for additional interest admissible to bank's staff member/retired staff member.

11. Whether additional interest admissible to bank's staff can be paid on the compensation awarded by the court to minor child and deposited in the joint name of minor child and parent?

No. As the money belongs to the minor child and not the bank's staff, additional interest cannot be paid.

12. Whether banks are permitted to offer differential rate of interest on other deposits?

Banks can formulate special fixed deposit schemes specifically for senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size.

13. Whether banks can open savings bank accounts in the name of Government Departments/Government Scheme?

Savings bank account cannot be opened in the name of Government Department/ Government Scheme, excepting in respect of deposits of Government organizations/agencies listed below:

- Primary Co-operative Credit Society which is being financed by the bank.
- Khadi and Village Industries Boards.
- Agriculture Produce Market Committees.

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4. Societies registered under Societies Registration Act, 1860 or any other corresponding law in force in State or a Union Territory.
5. Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the word "Limited" or the words "Private Limited".
6. Institutions other than those mentioned in clause (i) above and whose entire income is exempt from payment of income tax under Income-Tax Act, 1961.
7. Government departments/bodies/agencies in respect of grants/ subsidies released for implementation of various programmes/ schemes sponsored by Central Government subject to production of an authorisation from the respective Government departments to open savings bank account.
8. Development of Women and Children in Rural Areas (DWCRA).
9. Self-help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.
10. Farmers' Clubs - Vikas Volunteer Vahini - VVV.

14. At what rate the interest is payable on the deposit standing in the name of deceased depositor?

In case of a term deposit standing in the name of a deceased depositor, interest will be paid in the following manner.

i) If the payment of deposit is claimed before the maturity, the interest is payable at the rate prevalent on the date on which the deposit was placed with the bank and as applicable to the period for which the deposit remained with the bank, without charging any penalty.

ii) In the event of death of the depositor before the date of maturity and the payment of deposit is claimed after the date of maturity, the interest is payable at the contracted rate upto the date of maturity. From the date of maturity till the date of payment of the deposit, the bank shall pay interest at simple rate of interest prevalent on the date of maturity as applicable to the period for which the deposit remained with the bank from the date of maturity of the deposit till its payment.

iii) In the case of death of the depositor after the date of maturity of the deposit the bank shall pay interest at savings deposit rate operative on the date of maturity from the date of maturity till the date of payment.

15. Whether an overdue deposit can be renewed from its date of maturity and if so, whether compounded interest can be allowed?

A bank may, at its discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days and the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity. In the case of overdue deposits where the overdue period exceeds 14 days and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh term deposit, the bank may fix its own interest rates for the overdue period on the amount so placed as a fresh deposit. If an overdue deposit standing in the name of a living depositor under reinvestment plan or an ordinary fixed deposit is renewed by the bank under reinvestment plan at the specific request of the depositor, payment of compounded interest can be allowed.

II. NRI DEPOSITS

16. Whether concessional rate of interest i.e. 2% above deposit rate is applicable when loan against FCNR (B) deposit is repaid in foreign currency?

Banks have freedom to fix the rate of interest chargeable on loans and advances against FCNR(B) deposits to the depositors without reference to their own Prime Lending Rate irrespective of repayment made in Rupees or Foreign Currency.

17. Whether banks can accept recurring deposits under FCNR(B) Scheme?

No. Banks cannot accept recurring deposits under FCNR (B) Scheme.

18. Who can fix the interest rates on NRE and FCNR (B) deposits?

Board of Directors of banks have been empowered to authorise the Asset-Liability Management Committee to fix interest rates on deposits and advances.

19. Whether banks are permitted to offer differential rate of interest on NRE / FCNR(B) deposits?

Yes. Banks are permitted to offer differential rates of interest on NRE term deposits as in the case of domestic term deposits of Rs. 15 lakh and above. Regarding FCNR(B) deposits, banks are now free to decide the currency wise minimum quantum on which differential rate of interest may be offered subject to the overall ceiling prescribed.

20. What is meant by Reinvestment Deposit?

Reinvestment deposits are those deposits where interest (as and when due) is reinvested at the same contracted rate till maturity which is withdrawable with the principal amount on maturity date. It is also applicable to domestic deposits.

21. Whether NRE / FCNR(B) deposits can be renewed from retrospective effect (i.e. from the maturity date)? If yes, what is the rate of interest payable?

The bank may, at its discretion, renew an overdue NRE / FCNR(B) deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive), does not exceed 14 days and the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal, whichever is lower. In the case of overdue deposits where the overdue period exceeds 14 days, the deposits can be renewed at the prevailing rate of interest on the date when the renewal is sought. If the depositor places the entire amount of overdue deposit or a portion thereof as a fresh NRE / FCNR(B) deposit, banks may fix their own interest rates for the overdue period on the amount so placed as a fresh term deposit. Banks are free to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of minimum stipulated period under the scheme, after renewal.

22. Whether interest rate stipulations applicable to loans in rupees under FCNR(B) scheme are applicable to loans denominated in foreign currency?

No. Interest rate stipulations applicable to loans in rupees under FCNR(B) scheme are not applicable to loans denominated in foreign currency which are governed by the instructions issued by Exchange Control Department.

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23. Under what circumstances additional interest over and above the declared rate of interest can be paid in case of FCNR(B) deposits?

In respect of deposit accepted in the name of –

- a. member or a retired member of the bank's staff, either singly or jointly with any other member or members of his/her family, or
- b. the spouse of a deceased member or a deceased retired member of the bank's staff,

the bank may, in its discretion, allow additional interest at a rate not exceeding one per cent per annum over and above the rate of interest stipulated.

Provided that –

- i. the depositor or all the depositors of a joint account is/are non-resident/s of Indian nationality or origin, and
- ii. the bank shall obtain a declaration from the depositor concerned that the moneys so deposited or which may, from time to time, be deposited, shall be moneys belonging to the depositor as stated in clause (a) and (b) above.

Explanation: The word "family" shall mean and include the spouse of the member/retired member of the bank's staff, his/her children, parents, brothers and sisters who are dependent on such a member/retired member but shall not include a legally separated spouse.

24. In the case of deceased depositor's NRE / FCNR(B) deposit, in the event of legal heirs effecting premature withdrawal before completion of minimum prescribed period, whether any interest is payable?

No. A deposit has to run for a minimum stipulated period, which is at present one year for FCNR(B) and six months for NRE deposits, to be eligible to earn interest.

25. Whether banks can pay interest on NRE and FCNR(B) deposits for the intervening Saturday, Sunday and holidays between the date of maturity and payment?

Yes. Whenever the due dates fall on Saturday/Sunday/non-business working day/holidays banks are permitted, to pay interest on NRE and FCNR(B) deposits at the originally contracted rate for the intervening period between the due date and date of payment so that no interest loss is suffered by the depositors.

III. ADVANCES

26. What is the meaning of the word 'Free' in the lending rate prescription?

Banks are free to fix Prime Lending Rate (PLR) for credit limits over Rs.2 lakhs with the approval of their respective Boards, which should be the minimum rate charged by them for such credit limits. PLR is to be declared and has to be uniformly applicable at all branches. The banks may authorise their Asset-Liability Management Committee (ALCO) to fix interest rates on Deposits and Advances, subject to their reporting to the Board immediately thereafter. The banks should also fix maximum spread over the PLR with the approval of the ALCO/Board for all advances other than consumer credit.

27.(i) What are the 'intermediary agencies'?

(ii) What are 'housing finance intermediary agencies'?

An illustrative list of Intermediary Agencies is as under:

1. State sponsored organizations for on-lending to Weaker Sections.@
 2. Distributors of agricultural inputs/implements.
 3. State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs) to the extent they provide credit to weaker sections.
 4. National Small Industries Corporation (NSIC).
 5. Khadi and Village Industries Commission (KVIC).
 6. Agencies involved in assisting the decentralized sector.
 7. Housing and Urban Development Corporation Ltd. (HUDCO).
 8. Housing Finance Companies approved by National Housing Bank (NHB) for refinance.
 9. State sponsored organization for SCs/STs (for purchase and supply of inputs to and/or marketing of output of the beneficiaries of these organizations).
 10. Micro Finance Institutions/Non-Government Organisations (NGOs) on-lending to SHGs.
- @ 'Weaker Sections' in Priority Sector includes following:
- i. Small and marginal farmers with land holdings of 5 acres and less, landless labourers, tenant farmers and share-croppers;
 - ii. Artisans, village and cottage industries where individual credit requirements do not exceed Rs.25,000/-.
 - iii. Small and marginal farmers, sharecroppers, agricultural and non-agricultural labourers, rural artisans and families living below the poverty lines are the beneficiaries. The family income should not exceed Rs. 11,000/- per annum.
 - iv. Scheduled Castes and Scheduled Tribes.
 - v. Beneficiaries are persons whose family income from all sources does not exceed Rs.7200/- per annum in urban or semi urban areas or Rs.6,400/- per annum in rural areas. They should not own any land or the size of their holding does not exceed one acre in the case of irrigated land and 2.5 acres in the case of unirrigated land (land holding criteria do not apply to SC/ST).
 - vi. Beneficiaries under Scheme of Liberation and Rehabilitation of Scavengers (SLRS).
 - vii. Advances granted to Self-Help Groups (SHGs) for reaching the rural poor.

28. Whether banks can charge interest rate without reference to their own PLR?

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Yes. In respect the following categories the banks have freedom to charge interest rate without reference to PLR:

- i. Loans covered by refinance schemes of term lending institutions.
- ii. Interest rates on bank lending to intermediary agencies.
- iii. Bill discounting by banks.
- iv. Advances/overdrafts against domestic/NRE/FCNR(B) deposits.

Banks are also free to determine the rates of interest without reference to PLR for the following categories:

- a. Loans for purchase of consumer durables.
- b. Loans to individuals against shares and debentures /bonds.
- c. Other non-priority sector personal loans.

However, it is not the intention to allow any concessionality in case of such loans and therefore banks should not charge rates below PLR, regardless of the size of the loan amount.

29. Whether it is in order for banks to have multiple PLRs?

Yes. The banks may announce different PLRs for credit limits over Rs. 2 lakhs for different maturities provided the transparency and uniformity of treatment originally envisaged continues to be maintained. The banks, which have moved over to declaration of tenor-linked PLRs should always indicate the specific tenor for which the declared PLR is applicable. Banks may announce a separate Prime Term Lending Rate (PTLR) for term loans of three years and above. Banks may also prescribe separate PLRs and spreads over PLRs for loan component and cash credit component.

30. Whether banks can grant fixed rate loans for the purposes other than project finance?

The banks have freedom to offer all loans on fixed or floating rates subject to conformity to Asset Liability Management (ALM) Guidelines. However, they should ensure that the PLR stipulations as applicable are complied with. The nature of alignment with PLR i.e. whether it is at the time of sanction or disbursement of the loan, should be made explicit at the time of sanction of the loan. However, for small loans upto Rs. 2 lakhs, the stipulation of 'not exceeding PLR' (for relevant maturity) would be applicable.

31. Whether the revised PLRs will be applicable to the existing advances?

Yes. The banks are required to invariably incorporate following proviso in the loan agreements in the case of all advances, including term loans, enabling banks to charge the applicable interest rate in conformity with the directives issued by RBI, except in case of Fixed Rate Loans.

"Provided that the interest payable by the borrower shall be subject to the changes in interest rates made by the Reserve Bank from time to time."

32. Whether banks may provide a rebate in interest rate whereby the interest charged works out lower than the PLR?

No. Charging a rate of interest below prevailing PLR where a bank has not contracted a fixed rate loan, to any borrower at any time would be deemed as violation of our directives. It would not be in order to provide rebate resulting into actual interest rates charged to any borrower working out lower than the PLR. However, there is no objection to allowing a rebate, as long as the effective interest rate is not below the PLR. The spirit behind the advice to banks to declare PLR with the approval of their ALCO/Board is to make it applicable uniformly at all branches and to impart transparency in the matter of lending rates.

33. Whether banks are permitted to charge interest below their declared PLR under consortium arrangement to offer rate comparable to leader bank?

No. The banks need not charge a uniform rate of interest even under a consortium arrangement. Each member bank should charge rate of interest on the portion of the credit limits extended by them to the borrowers subject to their PLR.

34. Whether banks are permitted to charge interest below their declared PLR in certain cases?

Banks can offer loans below the PLR rates to exporters or other credit worthy borrowers including public enterprises in accordance with a transparent and objective policy approved by their respective Board of Directors.

35. What should be penal rate of interest?

In the event of default, the banks may charge penal interest in the borrowal accounts. Penal rate represents additional interest charged over and above the normal interest rates charged to the borrowers. The penal interest should not be levied on adhoc limits since the limits are generally granted pending regular sanction of loans and the rate of interest thereon should be subject to the maximum spread over PLR. With effect from 10.10.2000, the bank's boards have been empowered to take decision on whether or not penal interest that should be levied for reasons such as default in repayment, non-submission of financial statements, etc. The policy should be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers.

36. What shall be the interest rates for direct housing finance to individuals?

Direct housing loans to individuals upto Rs.5 lakhs in rural/semi-urban area and Rs.10 lakhs in urban/metropolitan area and loans upto Rs.50,000/- for repairs to damaged houses by individuals are treated as priority sector advances. The rate of interest will be determined according to size of the credit limit. As such the loans upto Rs.2 lakhs should be charged interest as per size of limit i.e. 'not exceeding PLR'. Loans above Rs. 2 lakhs and upto Rs. 5 lakhs in rural/semi-urban area or Rs.10 lakhs in urban/metropolitan area should be charged interest subject to PLR and the spread announced by the bank concerned. Loan above Rs.5 lakhs in rural/semi-urban area and above Rs.10 lakhs in urban/metropolitan area will fall under category 'Other non-priority sector personal loans' in which case banks are free to determine the rates of interest without reference to PLR.

37. Consequent on the deregulation of interest rate on advances over Rs. 2 lakhs with effect from October 18, 1994, how banks will bear DICGC Guarantee fee in respect of priority sector advance?

As regards DICGC Guarantee fee, the banks have discretion to absorb or to pass on the guarantee fee to the borrower in case of advances over Rs.25,000/- excluding advances to weaker sections. Banks should bear DICGC guarantee fees in respect of advances upto Rs.25,000/- and all advances to weaker sections.

38. Whether banks can charge rate of interest beyond the spread announced by them on advances granted to Non-Banking Finance Companies (NBFCs)?

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Banks have freedom to charge interest rate beyond the declared 'spread' on advances granted to NBFCs for onlending for consumer credit.

39. Whether interest on loans and advances could be charged at varying periods ranging from monthly rests to yearly rests?

With effect from April 1, 2002 the interest rates on loans and advances should be charged with monthly rests except in the case of agricultural advances(including short term loans and other allied activities) where the existing practice would continue. However the banks should compound the interest at monthly intervals only from April 1, 2003.

40. What rate of interest is chargeable on loans/ advances granted to Staff Member/Staff Co-operative Credit Societies?

The interest rate directives on bank advances will not be applicable to loans or advances or other financial accommodation made or provided or renewed by a scheduled bank, inter alia, to its own employees. Where the advances are provided by the bank to co-operative credit societies formed by the bank's staff members for lending to constituents (i.e. Staff of the bank) the interest rate directives of the RBI will not apply to such advances.

IV. ADVANCES AGAINST SHARES AND DEBENTURES

41. Whether banks can sanction loans to Trust and Endowments against the security of shares and debentures?

No.

42. Whether banks can sanction loans against the equity shares of the banking company to its directors?

No.

43. Whether any ceiling has been stipulated regarding the banks exposure to the capital markets?

The **total** exposure including both fund based and non-fund based, to capital market by a bank in all forms covering direct investment by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; Advances against shares to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity-oriented mutual funds etc and secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers should be restricted to 5 % of the outstanding advances as on March 31 of the previous year. (including Commercial Paper). Further, for computing the ceiling on exposure to capital market, direct investment in shares by banks will be calculated at cost price of the shares.

44. Whether banks can indulge in short sales of shares?

No. Banks are prohibited from making any short sales of share

45. Whether banks can invest in their subsidiaries?

Banks can invest in their subsidiaries. However, such investments will be outside the purview of 5%of the outstanding advances of the previous year and subject to compliance of Section 19 of the Banking Regulation Act, 1949.

46. Which of the bills should not be discounted by the banks?

The bills covering payment of electricity charges, customs duty, hire purchase/lease rental instalments, sale of securities and other types of financial accommodation should not be discounted by banks.

47. Whether banks can invest in Fixed Deposits of non-banking non-financial companies?

There is no prohibition on banks' placing of funds with non-banking non-financial companies under their Public Deposit Scheme. However, such investment in the Public Deposit Scheme should be classified by banks as loans/advances in their balance sheet and returns under the Banking Regulation Act, 1949 and fortnightly returns by scheduled commercial banks under Reserve Bank of India Act , 1934.

48. Whether banks can purchase letter of allotment in respect of PSU Bonds?

Banks can purchase letter of allotment in respect of PSU bonds subject to following conditions.

1. The transaction (other than inter bank transaction) should be undertaken only through recognised Stock Exchanges and registered brokers.

2. While purchasing the security, the bank should ensure that it gets a clear title to the security and the security is traded in the secondary market.

The bank should formulate their own internal guidelines with the approval of the Board for undertaking such transaction.

49. What should be the method of valuation for advances against shares/debentures /bonds?

Shares/debentures/bonds should be valued at prevailing market prices when they are lodged as security for advances.

50. Whether the banks can sanction bridge loans to companies?

Yes. For a period not exceeding one year against the expected equity flows/issues as also against the expected proceeds of Non-convertible Debentures, External Commercial Borrowings, Global Depository Receipts and/or funds in the nature of Foreign Direct Investments, provided the bank is satisfied that the borrowing company has made firm arrangements for raising the aforesaid resources/funds. Such loans are required to be accommodated within the ceiling of 5% of outstanding advances of the previous year.

51. What is the quantum of loans to individuals against security of shares, debentures and PSU bonds if held in physical form and in dematerialized form?

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The loans to individuals against the security of shares, debentures and PSU bonds if held in physical form should not exceed the limit of Rs.10 lakhs per borrower and Rs.20 lakhs if the securities are held in dematerialized form. The maximum amount of finance that can be granted to an individual for IPOs is Rs.10 lakh. The corporates should not be extended finance for investment in other companies' IPOs and NBFCs should not be provided finance for further lending to individuals for IPOs. Finance extended by a bank for IPOs should be reckoned as an exposure to capital market.

52. What is the margin stipulated for advances against shares held in physical form and dematerialized form?

A uniform margin of 40% has been stipulated for all advances against shares.

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53. Whether banks can make donations?

Yes, the profit making banks can make donations during a financial year, aggregating upto one per cent of the published profit of the bank for previous year inclusive of donations made earlier under exempted category and donations to National funds and other funds. Banks should not make donations in excess of prescribed ceiling of one per cent as stated above. Unutilised amount of the permissible limit in a year should not be carried forward to the next year for the purpose of making donations.

54. Whether loss-making banks can make donations?

Yes, loss making banks can make donations totaling Rs.5 lakhs only in a financial year.

55. Whether overseas branches of the banks can make donations abroad?

Yes, the overseas branches of the banks can make donations abroad, provided the banks do not exceed the prescribed ceiling of one per cent of their published profit of the previous year.

VI. PREMISES LOAN

56. What are the norms and procedure laid down by RBI for acquisition of accommodation on lease/rental basis by commercial banks for their use i.e. for office and residence of staff?

i) Boards of Directors of the banks should lay down policy and formulate detailed operational guidelines separately in respect of metropolitan, urban, semi-urban and rural areas covering all areas in respect of acquiring premises on lease/rental basis for the bank's use including delegation of powers at various levels. The decision of surrender or shifting of premises other than at rural centres is taken at central office level by a committee of senior executives.

ii) Banks' Boards should lay down a separate policy in respect of loans granted to landlords who provide to them premises on lease/rental basis. The rate of interest to be charged on such loans should be fixed as per the lending rate directives issued by RBI with minimum PLR for the loans above Rs. 2 lakhs. The rate of interest may be simple rate or compound rate as per the usual practice of the bank as applicable to other term loans.

iii) Banks should evolve a suitable machinery for dealing with genuine grievances of the landlord for expeditious disposal.

iv) In case of negotiated contracts in respect of advances to landlords and rental (including taxes etc. and deposits of Rs.25 lakhs and above) in respect of premises taken on lease/rental basis by public sector banks, the cases will be reported to Central Bureau of Investigation as per the extant Government instructions. This requirement is not applicable to banks in the private sector.

VII SERVICE CHARGES

57. Are there any limit prescribed by the RBI on service charges to be levied by the banks?

The banks have been given the freedom to determine the service charges to be levied from their customers and the RBI has not prescribed any ceilings in this regard.

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