Date : Sep 15, 2005

Domestic Deposits

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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 term deposits aggregating Rs.15 lakhs and above?

Differential rates of interest can be paid on single term deposit of Rs.15 lakhs and above and not on the aggregate of individual deposits where the total exceeds Rs.15 lakhs.

5. Whether banks can pay commission for mobilizing 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 (HUF), 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 on 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 the Government Department/ Government Scheme, except in respect of deposits of Government organizations/ agencies listed below:

1. Primary Co-operative Credit Society which is being financed by the bank.
2. Khadi and Village Industries Boards.
3. Agriculture Produce Market Committees.
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/ State Governments subject to production of an authorisation from the respective Government departments to open savings bank accounts.
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?

a. In the case of term deposit standing in the name/s of a deceased individual depositor, or two or more joint depositors, where one of the depositor has died, the criterion for payment of interest on matured deposits in the event of death of the depositor in the above cases has been left to the discretion of individual banks subject to their Board laying down a transparent policy in this regard.
b. In the case of balances lying in current account standing in the name of a deceased individual depositor/ sole proprietorship concern, interest should be paid only from May 1, 1983 or from the date of death of the depositor, whichever is later, till the date of repayment to the claimant/s at the rate of interest applicable to savings deposit as on the date of payment. However, in the case of NRE deposit, if the claimants are residents, the deposit on maturity is treated as domestic rupee and interest is paid for the subsequent period at a rate applicable to the domestic deposit of similar maturity.

15. What are the guidelines for renewal of overdue deposits?

All aspects concerning renewal of overdue deposits may be decided by individual banks subject to their Board laying down a transparent policy in this regard and the customers being notified of the terms and conditions of renewal including interest rate, at the time of acceptance of deposit. The policy should be non-discretionary and non-discriminatory.

II. Deposits of Non-Residents Indians (NRIs)

16. Whether concessional rate of interest 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 Benchmark Prime Lending Rate (BPLR) irrespective of whether repayment is 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 authorize the Asset-Liability Management Committee to fix interest rates on deposits within the ceiling prescribed by RBI.

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 lakhs and above within the ceiling prescribed. 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 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 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 FCNR(B) deposit, banks may fix their own interest 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) schemes 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 Foreign Exchange Department of RBI.

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, subject to the condition that overall ceiling prescribed for FCNR(B) deposits is not breached,

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 both FCNR(B) and 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 Benchmark Prime Lending Rate (BPLR) for credit limits over Rs.2 lakhs with the approval of their respective Boards. BPLR has to be declared and made uniformly applicable at all the branches. The banks may authorize 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 declare maximum spread over the BPLR with the approval of the ALCO/Board for all advances.

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 Organizations (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.6400/- 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 BPLR?

Yes. The banks are free to determine the rates of interest without reference to BPLR and regardless of the size, in respect of following loans:

(i) a. Loans for purchase of consumer durables.

b. Loans to individuals against shares and debentures/ bonds

c. Other non-priority sector personal loans.

d. Advances/ overdrafts against domestic/ NRE/ FCNR(B) deposits with the bank, provided that the deposit/s stands/ stand either in the name(s) of the borrower himself/ borrowers themselves, or in the names of the borrower jointly with another person.

e. Finance granted to intermediary agencies (excluding those of housing) for on lending to ultimate beneficiaries and agencies providing input support.

f. Finance granted to housing finance intermediary agencies for on lending to ultimate beneficiaries

g. Discounting of Bills

h. Loans/Advances/Cash Credit/Overdrafts against commodities subject to Selective Credit Control

ii. Loans covered by participation in interest refinancing schemes of term lending institutions.	Banks are free to charge rates as per stipulations of the refinancing agencies without reference to BPLR

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

No. Since all lending rates can be determined with reference to the Benchmark PLR by taking into account term premia and/or risk premia, there is no need for multiple BPLRs. These premia can be factored in to the spread over or below the BPLR.

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

The banks have freedom to offer all loans to fixed or floating rates subject to conformity to Asset Liability Management (ALM) Guidelines.

31. Whether the revised BPLRs 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 directive 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 charge interest below BPLR on loans above Rs.2.00 lakhs

Yes. At present, loans upto Rs.2 lakhs carry the prescription of not exceeding the Benchmark Prime Lending Rate (BPLR) and on the loans above Rs.2 lakhs, banks are free to determine rate of interest subject to BPLR and spread guidelines. Keeping in view the international practice and to provide operational flexibility to commercial banks in deciding their lending rate, banks may offer loans at below BPLR to exporters or other creditworthy borrowers including public enterprises on the basis of a transparent and objective policy approved by the respective Boards.

33. Whether banks are permitted to charge interest below their declared BPLR 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 BPLR.

34. What should be penal rate of interest?

With effect from October 10, 2000, banks have been given freedom to formulate transparent policy for charging penal interest with the approval of their Board of Directors. However, in the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to Rs.25,000. Penal interest may be levied for reasons such as default in repayment, non-submission of financial statements, etc. However, the policy on penal interest should be governed by well-accepted principles of transparency, fairness, incentive to services the debt and genuine difficulties of customers.

35. Consequent on the deregulation of interest rate on advances over Rs.2 lakhs with effect from October 18, 1994, whether banks should pay DICGC Guarantee fees in respect of priority sector advances?

As regards DICGC Guarantee fees, the banks have been given discretion to absorb or to pass on the guarantee fees 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.

36. 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 banks have been charging interest on loans and advances at monthly rests except in the case of agricultural advances (including short term loans and other allied activities) where the existing practice continues.

37. What rate of interest is chargeable on loans/ advances granted to Staff Members of the banks or Staff Members of Co-operative Credit Societies?

The interest rate directives on advances granted by banks 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 in such advances.

IV. Advances against shares and debentures

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

No.

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

No.

40. Whether any ceiling has been fixed on the bank's exposure to the capital market?

A banks total exposure, including both fund based and non-fund based, to capital market in all forms covering its direct investment in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; Advances against shared to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity-oriented mutual funds and secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers should not exceed 5% of its total outstanding advances as on March 31 of the previous year (including Commercial Paper). Within the above ceiling, bank's direct investment should not exceed 20 per cent of its networth. For computing the ceiling on exposure to capital market, the bank's direct investment in shares will be calculated at cost price of the shares.

41. Whether banks can make short sales of shares?

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

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

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

43. Whether banks can invest in fixed deposits of non-financial companies?

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

44. 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 the following conditions.

i. The transactions (other than interbank transactions) should be undertaken only through recognized Stock Exchanges and registered brokers.

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

iii. The bank should prescribe its internal guidelines with the approval of the Board for undertaking such transaction.

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

Shares/ debentures/ bonds accepted by banks as security for loans/ advances should be valued at the prevailing market prices.

46. Whether banks can sanction bridge loans to companies?

Yes. Banks can sanction bridge loans to companies for a period not exceeding one year against the expected equity flows/ issues as also 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. Bridge loans extended by a bank will be included within the 5% ceiling prescribed for banks' exposure to capital market.

47. What is the ceiling on the quantum of loans which can be sanctioned by banks to individuals against security of shares, debentures and PSU bonds, if held in physical form and in dematerialized form?

The loans/ advances granted to individuals against the security of shares, debentures and PSU bonds should not exceed Rs.10 lakhs and Rs.20 lakhs, if the securities are held in physical form and dematerialized form respectively. The maximum amount of finance that can be granted to an individual for subscribing to IPOs is Rs.10 lakhs. However, the bank should not provide finance to companies for their investment in IPOs of other companies. Banks can grant advances to employees for purchasing shares of their own companies under Employees Stock Option Plan (ESOP) to the extent of 90% of purchase price of shares or Rs.20 lakhs whichever is lower. NBFCs should not be provided finance for lending to individuals for subscribing the IPOs. Loans/ advances granted by a bank for subscribing to IPOs should be reckoned as an exposure to capital market.

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

A uniform margin of 50% has been stipulated for all advances against shares/ issue of guarantees. Within this 50 percent margin, a minimum cash margin of 25 percent should be maintained in respect of guarantees issued by banks for capital market operation.

V. Donations

49. Whether banks can make donations?

Yes. The profit making banks may make donations during a financial year, aggregating upto one percent of the published profit of the bank for the previous year. However, the contributions/ subscriptions made by banks to Prime Minister's Relief Fund and to professional bodies/ institutions like Indian Banks' Association, National Institute of Bank Management, Indian Institute of Bankers, Institute of Banking Personnel

Selection, Foreign Exchange Dealers Association of India, during a year will be exempted from the above ceiling. Unutilized amount of the permissible limit of a year should not be carried forward for the next year for the purpose of making donations.

50. Whether loss-making banks can make donations?

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

51. 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

52. 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 the staff?

i. The Board of Directors of the banks should lay down the policy and formulate 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 banks' use. These guidelines should include also delegation of powers at various levels. The decision in regard to surrendering or shifting of premises other than at rural centers should be taken at the central office level by a committee of senior executives.

ii. The Board of Directors of the bank should lay down separate policy for granting of loans to landlords who provide 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 BPLR as the minimum lending rate for the loans above Rs.2 lakhs. The rate of interest may be simple or compound, in accordance with the usual practice of the bank, as applicable to other term loans.

iii. Banks should provide a suitable mechanism for redressing the genuine grievances of the landlord expeditiously.

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

VII. Service charges

53. Is there any ceiling on service charges to be levied by the banks?

Indian Banks' Association (IBA) has dispensed with the practice of prescribing service charges to be levied by banks for various services rendered by them. With effect from September 1999, the Reserve Bank has granted freedom to banks to prescribe service charges with the approval of respective Board of Directors.