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Personal Banking

Type of Products and Features

**Assets – Loan against Fixed
Deposit**

- Fixed deposit offers higher returns but the amount is locked for the specified period
- Longer the period of deposit, higher the interest rate
- Premature withdrawal of the deposit reduces interest rate and also payment of penalty
- To avoid this, depositors take loan against their deposit if they require money before maturity date.
- Banks charge higher interest on loan than the deposit rate but the net cost is still lower than pre-mature payment of the deposit since higher interest is payable only for the loan period
- Generally, the loan is preferred only when the deposit has continued for a considerable period
- The deposit has to be in the same bank (at any branch)
- Loan against fixed deposit of other banks is not given as it is discouraged by the Reserve Bank of India
- Loan against third party fixed deposit is given.

- Banks offer Overdraft against fixed deposit with a cheque book facility – operating account wherein frequent withdrawal or deposit of amount is permitted. Customer saves interest on the days when the day-end balance is lower than the loan limit.
- Provides liquidity to the customers on the fixed deposits avoiding need for premature payment.
- Helps banks in popularising fixed deposit product, besides offering a fully secured lending opportunity.

Eligibility -

- All fixed depositors – Resident/Non-resident individuals, HUF, Proprietorship/ Partnership Firms, Companies, Societies, Trusts etc.
- Minors are not eligible

Purpose –

- For any lawful purpose – personal/business

Maximum Loan Amount – No limit , depends on the amount of fixed deposit

Margin -

- Normally 20% of the principal amount of deposit
- Margin is reduced to 10% at times
- Interest accrued up to the date of loan is also added to the principal amount at times, for calculating margin, particularly when the maturity dated is not far away

Security

- Lien and Appropriation Right on the Fixed Deposit
- Deposit to be in the same bank (any branch)
- No loan against other banks' fixed deposit - discouraged by the Reserve Bank of India.

Interest Rate and Charges

- 2% over the interest rate applicable to the fixed deposit
- Interest rate reduced up to 1% over deposit rate at times, depending upon amount, period and value of deposit/loan
- Interest rate fixed linked to interest rate on FD, applied monthly
- Interest on the day-end balance of the loan account
- No other charges

Repayment Schedule

- Repayable at any time, up to the maturity date of the fixed deposit
- On maturity date of the deposit, loan dues are adjusted out of the deposit proceeds
- At times, banks extend the loan beyond maturity date of the deposit after renewing the deposit for further period

Documentation

- Lien and Right of Appropriation created in favour of the bank, authorising the bank to appropriate the proceeds of fixed deposit towards liquidation of the loan
- Pledge of Fixed Deposit Receipt, duly discharged by the depositors
- In case of banks issuing only statement of fixed deposit, only execution of agreement by the depositor(s), creating lien and authorising the bank to appropriate the proceeds.
- Request letter from the depositor(s). In case of companies and trusts, suitable resolution by the Board/Managing Committee

Disbursement

- In case of loan, by transfer of the loan amount to the operating account of the depositors
- In case of Overdraft, by opening an Overdraft Account and issuing cheque book to the customers for withdrawing the amount as per their convenience

Operations and Review

- Periodical review to ensure servicing of the loan/overdraft interest
- Pre-payment allowed without any pre-payment penalty.
- On due date, closure of the loan/overdraft from the deposit proceeds

Foreclosure/Recovery/Legal Action

- In case of loan against third party deposit, foreclosure may be done in case of any unforeseen circumstances, like death of the depositor or the borrower
- In case of death of the depositor, the nominee entitled to receive balance after adjustment of the loan/overdraft



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