

## 5.29 POLICY ON PREPAYMENT AND PENALTY FOR PRE-PAYMENT :

The following are the guidelines in connection with **premature** payment , charging and waiving of penalty cases.

WAIVER OF PENALTY ON **PREMATURE** PAYMENT OF DEPOSITS UPTO ₹.5/- LACS WITH MINIMUM PERIOD OF 12 MONTHS.

Branches should waive penalty for **premature** payment for fixed deposits upto ₹.5/- lacs having minimum period (tenure) of 12 months. In other words , Branches may waive penalty for prepayment of the deposits when the following two conditions are satisfied:

Face value of the deposit does not exceed ₹.5/- lacs per receipt.

The said deposit has remained with the Bank for a minimum period of 12 months.

The above instruction were given effect from 7th August,2002.

The benefit of waiver of penal interest on **premature** payment of deposits should be extended to deposit which has actually remained with the Bank for the minimum period of 12 months.

For example, the original or contract period of the fixed deposit of ₹.5/- lacs is say 12 months and the customer comes for prepayment of the said fixed deposit, say after the period of 6 months. In this case, the deposit has not remained with the Bank for minimum period of 12 months and hence the said fixed deposit is NOT eligible for the benefit of waiver of penal interest.

Supposedly, the original or contract period of fixed deposit of ₹.5/- lacs is say 24 months and the customer comes for prepayment of the said fixed deposit, say after the period of 12 months . In this case , the deposit has remained with the Bank for the minimum period of 12 months and hence the said fixed deposit is eligible for the benefit of waiver of penalty .In this case , no penalty for **premature** payment should be levied, as the deposit satisfies the above two conditions.

Applicable Rate of interest on Prepayment :

The rate of interest applicable for **premature** payment without penalty will be the rate ruling on the date of accepting the deposits ( i.e. the date of contract ), for the period for which the deposit has actually remained with the Bank.

The rate of interest applicable for **premature** payment with penal rate to be reckoned for the period for which the deposit has remained with the Bank, prevailing on the date of accepting the deposit by the Bank ( i.e. the applicable rate prevailing on the date of contract). or the Contracted Rate whichever is lower

Interest will be paid after deducting penalty of 1 % from such applicable rate or the Contracted Rate whichever is lower in the cases which are subject to charging penalty.

In other cases interest will be paid at applicable rate i.e. the rate applicable for the period for which the deposit has remained with the Bank or the Contracted Rate whichever is lower without deducting any penalty.

In the case of Flexi - deposit scheme, the rate of interest to be used at the time of prepayment of the deposit would be the rate applicable for the period for which the deposit has run prevailing at the time of accepting the Flexi-deposit or the applicable rate prevailing on the day of **premature** payment of deposit **WHICHEVER IS LOWER.**

## WAIVER OF PENALTY ON SETTLEMENT OF CLAIMS IN THE DECEASED DEPOSITOR'S ACCOUNTS / MISSING PERSONS

In the case of a term deposit standing in the name/s of --

A deceased / missing individual depositor

Two or more joint depositors where one of the depositor has died / is reported missing with FIR copy or the court order,

INTEREST SHOULD BE PAID IN THE MANNER INDICATED BELOW :

In the event of payment of deposit being claimed before the maturity date, the branches should pay interest at the applicable rate or the Contracted Rate whichever is lower without charging penalty.

In the event of death / missing of the depositor before the date of maturity of the deposit and amount of the deposit is claimed after the date of the maturity, the branches should pay interest at the contracted rate till the date of maturity . From the date of maturity to the date of payment, the branches should pay simple interest at the applicable rate operative on the date of maturity for the period for which the deposit remained with Bank beyond date of maturity.

If on request from the claimant/s it is agreed to split the amount of term deposit and to issue two or more receipts individually in the names of the claimant/s. It should not be construed as **premature** withdrawal of the term deposit. The period and aggregate amount of the deposit should not , however , undergo any change.

**PREMATURE** PAYMENT OF DEPOSIT FOR TAKING BENEFIT OF HIGHER DEPOSIT RATE:

Penal interest will not be charged in case of **premature** withdrawal of deposits provided such deposits are reinvested in term deposits with maturity period longer than the remaining period of original contract of deposits prematurely withdrawn.

#### CHARGING OF PENALTY FOR **PREMATURE** PAYMENT -CASES

PENAL INTEREST ON **PREMATURE** WITHDRAWALS OF SHORT DEPOSITS, AND FIXED DEPOSITS OF THE FACE VALUE EXCEEDING ₹.5/- LACS AND UPTO RS.5/- CRORES.

In case of **premature** withdrawals of short deposits and fixed deposits of the face value exceeding ₹.5/- lacs and upto ₹.5/- crores , the following penal rate shall apply

For **premature** withdrawal of all deposits which have remained with the Bank for less than 12 months and also all deposits of the face value exceeding ₹.5/- lacs and upto ₹.5/- crores, interest should be paid one percent less than the rate which is applicable at the time of placing the deposit, or the Contracted Rate whichever is lower for the period for which the deposit has actually run.

Penal rate ( i.e. effective rate of Interest) : The penal rate to be reckoned for **premature** payment of deposit should be the rate applicable for the period for which the deposit has remained with the Bank, prevailing on the date of accepting the deposit by the Bank.( i.e. the applicable rate prevailing on the date of contract) or the Contracted Rate whichever is lower.

Interest should be paid after deducting penalty of 1 % from such applicable rate or the Contracted Rate whichever is lower in the cases which are subject to charging of penalty.

If a deposit is kept with compounding benefit under reinvestment plan and such deposit is sought to be prematurely renewed, branches may pay compound interest instead of simple interest at the applicable rate without penalty for the period for which the deposit remains with the bank, provided the deposit is

kept with the bank after the date of such renewal for a period longer than the remaining period of the original deposit and provided that such premature payment is sought with a view to availing of the enhanced rates of interest on deposits.

If further this renewed deposit is sought to be prematurely paid, no penalty will be charged provided the deposit is held by the bank after the date of renewal for a period longer than the remaining period of the original contract.

This is clarified hereunder by way of an example :

A depositor invests a sum of ₹. 10,000/- in term deposit on 1st April, 1991, for a period of -63- months. In the wake of October, 1992, revision in the rates of interest on deposits by the RBI, he applies for premature renewal of term deposit for a period of 63 months on 1st December, 1992. On 7th August, 1994 he again requests for withdrawal of his deposit.

The deposit, after premature renewal, has remained with the Bank for 20 months and -6- days, which is less than the remaining 43 months of original contract. It would thus, be deemed that the deposit should be treated as premature payment of original deposit and the interest in such a case should be paid in the following manner :

From 01.04.91 to 30.11.92 : 1% below than the rate applicable for 20 months as on 1st April, 1991.

From 01.12.92 to 06.08.94 : 1% below than the rate applicable for 20 months and -6- days as on 1st December, 1992.

Note :

Penalty @ 1% is to be recovered now for the period 01.04.91 to 30.11.92 as while doing pre-mature renewal on 01.12.92, the same was not recovered.

The CBS system opens the renewed FDR under a new account number and therefore a new receipt may be printed and issued. With a view to identify such cases clearly, the branches should, write in red ink on the top of the renewed FDR. The system maintains the data relating to old and new FDR. However it is advisable to make a remark in the system as "Prematurely renewed FDR".

**Premature** payment of deposits to the legal heirs of a deceased individual depositor, does not attract the penalty for **premature** repayment. **Premature** payment of deposits standing in the joint names where one of the depositors has died, does not attract penalty of **premature** repayment also.

Depositors having recurring deposit accounts are allowed to convert the balances to fixed deposit accounts, before maturity, without penalty, with interest on compounded basis at the rate applicable for the period for which the deposit has remained with the Bank, provided the fixed deposit is for a maturity period longer than the unexpired period of recurring deposit.

Dealing with Overdue / Matured Deposits.

The following instructions are in place regarding overdue deposits .

All FDRs / SDRs which have matured after 1.8.1998, should be renewed automatically by following the prescribed procedure. The receipts which have matured prior to 1.8.1998 have to be renewed after following - up with the depositors, the legal heirs etc.

Procedure for automatic renewal of FDRs / SDRs:

If the depositor does not come forward to renew the term deposits or does not give renewal instructions on due date then all such term deposits would be automatically renewed as stated below .

All FDRs / SDRs due between 1.8.98 - 31.07.2001

to be renewed automatically for 3 years.

All FDRs (maturity => 1 year) due on and after 1.8.2001.

to be renewed automatically for 1 year.

All SDRs (maturity < 1 year) due on and after 1.8.2001

To be renewed automatically for the same period.

The receipts which have matured prior to 1.8.1998 have to be renewed after following up with the depositors or with the legal heirs of the deceased depositors etc., the follow up in such cases needs to be vigorous, sustained and result oriented.

Thus, all the overdue deposits if renewed, there will be no need to provide any interest on overdue deposits.

Crystallisation of Chronic Long Outstanding Overdue Deposits(outstanding prior to 1.8.1998)

a). It is possible that after exhausting all the avenues of contacting the depositors, certain overdue deposits / matured deposits may still be continuing in the books of the branches.

b) Long outstanding overdue deposits prior to 1.8.1998 in the books of the branch should be crystallized and allowed to be continued as overdue deposits in the branch books itself for follow up with their owners for eventual disposal.

c) Chronic cases of overdue deposits include deceased and missing depositors , depositors whose whereabouts are not known, court cases, small tender money deposits lying with Govt. Departments and abandoned by the contractors etc.

d) All term deposits matured prior to 1.8.1998 and continue to outstanding in the branch books, should be transferred from term deposit portfolio to overdue

deposit portfolio as per our usual practice. Thus, the overdue deposits will form the part of demand deposits.

e)The figure of overdue deposit will now be a static figure and there will be no additions whatsoever and in fact it will only go on reducing over the period of time as a result of follow-up action initiated by you in this regard.

#### Payment / Renewal of overdue deposits outstanding prior to 1.8.1998

Whenever long outstanding overdue deposit / matured deposit (i.e. outstanding prior to 1.8.98) is presented for payment or renewal, the branch may take the following action :

a). No interest will be paid if such deposit is paid i.e. the deposit is not renewed for further period.

b) However, simple Interest at the latest available saving bank rate may be paid if the deposit is renewed for further period.

c). Simple interest as above will be paid for overdue period of such deposit i.e. the simple interest at saving bank rate would be paid for the period from the due date of the deposit till the date of renewal of the deposit.

d). The amount of new deposit receipt will be as follows : Proceeds of old outstanding deposit plus interest at saving bank rate for the overdue period.

e) The rate of interest applicable for such renewed deposit will be the rate ruling on the date of renewal applicable for the period for which the deposit is renewed.

f). Our policy of paying interest at savings bank rate on long outstanding overdue deposits as above is placed on the Bank's website by way of notice / information of the general public.



g). System will make monthly provision of interest on overdue deposits.

h) Proper record of all the overdue deposits / matured deposits crystallised as above and subsequently renewed / paid should be maintained.

Dealing with Overdue Deposits of deceased /missing depositors :

In the case of death of the depositor after the date of maturity of the deposit, the branches shall pay interest, at savings bank rate operative on the date of maturity from the date of maturity till the date of payment, as per RBI guidelines.

Similar treatment should be given to the deposits of the person who has been reported missing after the date of maturity of the deposit subject to fulfilment of other criteria applicable to treat the person as missing.

Certain Issues :

Applicability of TDS :

All provisions of TDS as applicable from time to time are to be followed in the transactions of automatic renewal of TDRs also.

Refund of TDS in case of **premature** payment :

In \_\_\_\_\_ case \_\_\_\_\_ where  
TDS \_\_\_\_\_ is  
deducted but due to **premature** payment of TDR the TDS is either not  
applicable or applicable for lesser amount on account of lower rate of interest,  
TDS can be refunded to the depositors as under :-

When TDS is deducted but not remitted

Take back the TDS certificate already issued, from the customer.

Refund the TDS by adjusting our scrolls/ through appropriate CBS menu.

When TDS is deducted and remitted.

Please note that TDS amount is remitted every month and e-TDS returns are being filed every quarter by the branches. Hence the matter may be referred for guidance.

Branches should note that no refund can be granted in case of TDS remitted in earlier financial year.

The matter of TDS is dealt with elaborately in volume 20. For detailed guidelines, please refer the said volume.

Notice to the depositors

Newly printed stationery contains necessary clauses regarding the procedure of automatic renewal of TDRs followed by the Bank. However, if the TDRs or account opening forms used by branches do not contain clauses dealing with automatic renewal of TDRs, Branches may affix the following rubber stamps on the relevant stationery :

Deposits of the maturity of 1 year and above will be renewed for 1 year at the prevailing rate on due date, if not instructed otherwise .

Deposits of the maturity of less than one year will be renewed for the same period, if not instructed otherwise.

Safe Custody of TDRs :

In the case of the deposits which are renewed automatically, it has to be noted carefully that the renewed receipt should not be parted with. The renewed receipt should be held in safe custody and should be given to the depositor only against submission of his old receipt .

### 5.31 Rules regarding calculation of interest on time deposits :

Interest accrued on a time deposit, should ordinarily be paid, only on maturity. However, at the request of the depositor, interest on deposits of 12 months and over, can be paid before maturity on the following basis :

Monthly or quarterly interest should be paid only on completion of the month/quarter calculated from the date of deposit or end of each calendar month/ quarter, whichever is later.

Where interest is paid on monthly basis, it can be either of the following ways :

On completion of one month of the deposit, 1/3 of the quarterly interest after deducting discount for two months and on completion of second month, 1/3 of the quarterly interest after deducting discount for one month and on completion of the quarter, 1/3 of quarterly interest without deducting any discount and so on for succeeding quarters/ months. (For the convenience of the branches tables showing equated monthly interest are supplied by Head Office)

OR

Monthly Interest could be paid to the depositor without discounting provided the depositor accepts an interest holiday for first 3 months ( quarter). Monthly instalment of interest can be paid at 1/3 of quarterly interest without discounting it commencing from the 4th month. The interest accrued during the last quarter, in this case, will be paid on maturity.

Where branches have accepted fixed deposits for a period, where the terminal quarter/month is incomplete, payment of interest for the incomplete terminal quarter/month will be as under :

Where the interest is paid at quarterly intervals, interest shall be paid at actuals at the contracted rate for the terminal incomplete quarter on the maturity of the deposit.

Where the interest is paid at discounted value on monthly basis, if the terminal quarter consists of:

1. One month (e.g. deposit for 37 months):	Interest shall be paid for the last month at 1/3 of quarterly interest and not at the discounted rate).
2. more than one month but less than or equal two months month ( e.g. deposits for 37months & 15 days or 38	Interest shall be paid at discounted value for first month(i.e.37th month) and actuals for the terminal incomplete month (15 days) or terminal month 38th month.

(In all the three cases, discount would be calculated for the period upto the date of maturity and not the last date of the quarter).

In all cases of domestic term deposits ( Period of deposit more than a year) where the terminal quarter is incomplete, interest should be calculated for the actual number of days, reckoning the year 365/366 days, viz the calculation of interest on such deposits should be in order of completed quarters and days.". (Ref Ho br 104/24 dated 03.02.2012)

For calculation of interest on term deposits for periods less than 12 months, the following procedure should be adopted :

For accounts with deposit period up to 182 days, the interest should be calculated for the actual number of days on the basis of 365/366 days in a year.

For accounts with deposit period for more than 182 days but below one year, the interest should be calculated on monthly basis for the completed months and for the remaining period on the basis of 365/366 days in a year.

