

INTEREST RATES ON NRO & NRE ACCOUNTS

Ordinary Non-Resident Account (NRO)

- NRIs can open Non-Resident Ordinary (NRO) deposit accounts for collecting their funds from local bona fide transactions. When a resident becomes NRI, his existing Rupee accounts are **designated as NRO**. Exchange rate risk in NRO accounts is borne by the depositors themselves.
- Foreign nationals who have come to India on employment and are eligible to open/hold a **resident savings bank account** to re-designate their such account as NRO account on leaving the country after their employment to enable them to receive their legitimate dues subject to certain conditions.
- NRO accounts can be maintained as current, saving, recurring or term deposits. While the principal of NRO deposits is non-repatriable, current income and interest earning is repatriable.
- NRI/PIO may remit an amount not exceeding US \$ 1 Mn. per financial year out of the balances held in NRO accounts/ sale proceeds of assets /the assets in India acquired by him by way of inheritance/legacy, on production of documentary evidence.

Non-Resident (External) (NRE) Accounts

- Any NRI can open an NRE account with funds remitted to India through a bank abroad. NRE account may be opened in Current, Savings or term deposit. The account is repatriable and transfer from another NRE account or FCNR (B) account is permitted. Exchange risk is to be borne by the depositor as the account is maintained in rupees. NRIs / PIOs have the option to credit the current income to their NRE accounts,
- Banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under NRE Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with effect from 16.12.2011.
- Interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.
- In case of the savings bank accounts frozen by the enforcement authorities, interest is continue to be credited to the account on a regular basis.
- The minimum tenor of domestic/ NRO term deposits is 7 days. Banks are allowed to accept NRE deposits above 3 years provided the rate of interest on such long term deposits is **not higher than that applicable to 3 year deposits**.
- Domestic deposits repayable in less than three months or where the terminal quarter is incomplete, interest is to be paid proportionately for the actual number of days reckoning the year at 365 days. If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.

Other guidelines

- No penal interest is to be charged for premature withdrawal of NRE term deposits for conversion into Resident Foreign Currency (RFC) account. However, in case the deposit has not run for a minimum period of 1 year, bank may, at its discretion, pay interest at a rate

not exceeding the rate payable on savings deposits held in RFC accounts provided the request for such a conversion is made by the NRE account holder immediately on return to India.

- Conversion of NRE deposit into FCNR (B) deposit and vice versa before maturity should be subject to the penal provision relating to premature withdrawal.
- Banks are not permitted to grant loans in excess of Rs. 100 Lakh against security of funds held in NR(E)RA and FCNR(B) deposits either to the depositors or third parties and they should not undertake artificial slicing of the loan amount to circumvent the ceiling.
- Non-Resident Indian (NRI) may be permitted to open NRE / FCNR(B) account with their resident close relative (relative as defined in Section 6 of the Companies Act, 1956) on 'former or survivor' basis. The resident close relative shall be eligible to operate the account as a Power of Attorney holder in accordance with extant instructions during the life time of the NRI/ PIO account holder. NRO accounts may be held by non-residents jointly with residents.
- In the event of death of the depositor/one of the depositors (NRI) in joint account in an NRE deposit and the claimants are residents, the deposit on maturity shall be treated as a domestic rupee deposit and interest shall be paid for the subsequent period at a rate applicable to a domestic deposit of similar maturity.

Domestic Deposits

- Banks are free to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board /ALCO. Banks can frame their penalty structure for premature withdrawal of deposits to manage interest rates.
- Banks are required to calculate interest on savings bank accounts on a daily product basis (w.e.f. 01.04. 2010).
- Banks can renew Term Deposit Accounts of customers frozen by the orders of the enforcement authorities. No new receipt is required to be issued. In case of any overdue interest for less than 14 days on the date of receipt of the request letter, renewal can be done from the date of maturity and beyond 14 days, banks are required to pay interest for the overdue period as per the policy adopted by them, and keeping in a separate interest free sub-account to be released when the original fixed deposit is released.
- Interest on domestic term deposit repayable in less than three months or where the terminal quarter is incomplete, interest should be paid proportionately for the actual number of days reckoning the year at 365/366 days as the case may be.
- A bank may, at its discretion, pay additional interest not exceeding 1% p.a. and above the rate of interest stipulated on deposits accepted/renewed from CMD, ED, or such other Executive during the period of their tenure.
- Banks may pay interest on current account of a RRB sponsored by them, but, banks are not supposed to pay interest on the current accounts maintained by RRBs with them.
- Banks are not permitted to offer higher rate of interest to the Karta of an HUF even if he is a senior citizen in respect of a term deposit in the name of an HUF as the beneficial owner of the deposit is the HUF and not the Karta in his individual capacity.

- If the term deposit against which an advance was granted is withdrawn before completion of the prescribed minimum maturity period, such an advance should not be treated as advance against the term deposit and interest should be charged as prescribed by RBI from time to time.
- Banks are not permitted to launch any special scheme with lock-in periods and other features which are not in conformity with RBI instructions.

Other Prohibitions/restrictions

- a) Payment of interest on Current Account and countervailing interest on current accounts maintained by the borrowers.
- b) Discrimination in payment of interest on deposits between one deposit and another, accepted on the same date /same maturity/accepted at same office or different office other than special schemes specially for resident senior citizens offering higher rate of interest or deposits of Rs. 15 Lakh and above on which varying rate of interest is permitted on the basis of size of deposits subject to certain conditions.
- c) pay brokerage in the form of commission or gift or incentives on deposits in any manner or in any other form to any individual, firm, company, association, institution or any other person other than approved facilitators
- d) Employ/ engage any individual, firm, company, association, institution or any other person for collection of deposit or for selling any other deposit linked products on payment of remuneration or fees or commission in any form or manner, except to the extent permitted
- e) launch prize/lottery/free trips (in India and/or abroad), etc. oriented deposit mobilization schemes
- f) Resort to unethical practices of raising of resources through agents/third parties to meet the credit needs of the existing/prospective borrowers or to grant loans to the intermediaries based on the consideration of deposit mobilization.
- g) issue any advertisement/literature soliciting deposits from public highlighting only the compounded yield on term deposits without indicating the actual rate of simple interest offered by the bank for the particular period.
- h) Pay interest on margin money held in current account.
- i) accept interest-free deposit other than in current account or pay compensation indirectly.
- j) Grant advances against fixed deposit receipts or other term deposits of other banks.

- k) Open a savings deposit account in the name of Government departments/bodies depending upon budgetary allocations for performance of their functions, etc.
(Source: RBI M. Circular)

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