

Fixed Deposit Accounts

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Introduction and Definition

Fixed deposits are deposits placed with the bank for fixed period. It is repayable on the expiry of that period, the rate of interest offered to these are higher than on savings accounts. The minimum period of such deposit may be placed is 7 days, whereas the maximum period is 120 months. If there is court order in case of minors, the same period can be extended. The interest rate on deposits are fixed by bank. Before 1992 it was stipulated by R.B.I.

The term “Fixed Deposit” is define as, “a deposit received by a bank for a fixed period and which is withdrawable only after expiry of the said period and shall also include deposits such as, recurring, cumulative, annuity, cash certificates etc.

Who can Opens

Those who have funds in hand can open fixed deposit account. These include :

-Individuals

-Sole Proprietorships

-Hindu Undivided Families (HUF)

-Partnerships

-Trusts

-Associations / Societies and Clubs

-Limited Companies

Interest

The study of interest paid on fixed deposit can be summarised in points as below;

-Banks are now free to determine the rate of interest.

-Banks may offer deposit on a floating rate

-Interest should be paid at quarterly or longer rests.

-Interest is calculated on the daily balance.

-Interest on deposit of less than 3 months or where the quarter is incomplete, interest should be paid on the number of days reckoning the year at 365 days.

Interest

- Interest is credited only if it is one rupee or more.*
- Scheduled bank with deposits of less than ₹.25 Crores are permitted to give an additional $\frac{1}{2}$ % of interest.*
- All transactions including the payment of interest should be rounded off to the nearest rupee.*
- Additional interest of 1% is also payable to retired employee (not resigned) and the spouse of a deceased retired employee.*

Tax Deduction and Contains

Where the interest paid per individual in excess of Rs.10,000/-, bank has to deduct tax at source if the depositor has not submitted Form 15H or 15G or certificate u/s 197(1) of the Income tax Act, 1961.

The main contents of Fixed Deposit Receipt are;

- Date of issue*
- Due date*
- Amount*
- Rate of interest*
- Period of deposit*
- Amount of maturity.*

Early Withdrawal and Renewal

Sometimes a depositor may want to encash his deposit before maturity. Bank should permit early withdrawal. The R.B.I. states that penal interest should not be charged if the deposit is reinvested in a fresh deposit immediately. Banks may at their discretion, disallow premature withdrawal of large deposits held by entities other than individuals and HUF. This is possible if depositor have been so advised at the time of the account was opened.

In case of renewal, the deposits are renewed on maturity on the request of the depositor. Interest on renewal will be;

On the original deposit at the rate applicable to the period for which the deposit has actually run.

Interest for the period from the date of renewal will be allowed at the rate prevailing on the date of renewal.

Maturity

The deposit is said to be matured when the period for which it has been placed is over. On maturity the depositor must instruct bank to renew if he wants so. Bank at their own cannot do so. If the depositor neither renew nor claim the deposit amount, such deposits will be designated as an, "overdue deposit" in the books of bank. If the depositor does not make a demand, bank cannot close the deposit and repay the depositor. If the depositor does not want to renew it, he can ask for it to be paid to him either by crossed cheque/draft or just credited to his account with the bank.

Renewal of Overdue Deposits

The aspects concerning renewal of overdue deposit may be decided by banks laying down a transparent policy which is non-discretionary and non-discriminatory. This should be notified to customer at the time of opening account. If the application for renewal is made after 14 days the rate of interest should be the rate prevailing on the date of renewal of deposit. Banks are free to determine the rate of interest between the date of maturity and the date of renewal.

Advance on Fixed Deposits

Banks may grant loans on the security of the Fixed deposit. The decision in regards to margin is left to the individual bank. On the advances given on the security of fixed deposits to third parties upto Rs.2Lakhs banks can charge interest without reference to its BPLR. If it exceeds Rs.2Lakhs, it should be at the rates prescribed by the R.B.I. All transaction should be rounded to the nearest rupee. Cheque issued by the customers containing fractions of a rupee should not be rejected or dishonored.

Joint Holding and loss of receipt

As in case of saving account, fixed deposit account also may be in the joint names of two or more persons. But in joint holding, if one of the holder make request of premature withdrawal, the same should be done only after getting consent of the other depositor. This rule also applies to loans and other requests against the same deposits.

The fixed deposit receipt is neither negotiable nor is it transferable. If the same is lost, customer will ask for a duplicate. The duplicate receipt is necessary because at the time of maturing and repayment all banks wants the original receipt for discharge and surrendered. To obtain duplicate receipt depositor should request in writing and execute a letter of indemnity

Repayment and Recurring Deposit

The repayment of deposit must be made by account payee cheque if the amount of deposit along with interest is above 20,000/-. The payment can also be made by crediting the saving/current account of the depositor. In case of joint holding, the repayment is usually made in the name of the first person. A banking cash transaction tax is applicable if individual or HUF withdraw Rs.1,00,000/- for companies or other bodies.

A variant is the recurring or cumulative deposit. Deposit can save a recurring amount every month for the period selected. If the depositor closes his account within three months, no interest is paid.

Deceased Depositor

When a depositor has utilised facility of nomination or account is opened with survivor clause, payment of balance in the account to nominee or survivor is valid if;

- 1. Bank has exercise due care in establishing identity of survivor*
- 2. There is no court order restraining bank for payment etc.*

Where deceased depositor has not made any nomination; banks are expected to follow simple procedure for repayment to legal heirs without inconveniencing them.

Deposit of Deceased Depositor

A term deposit with interest becomes payable on maturity to the heir/legal representative of a deceased depositor. If the death takes place before maturity and the deposit is claimed after the maturity; interest is to be paid at the contracted rate upto maturity and then saving account rate. The RBI has asked banks to incorporate a clause in the account opening form to the effect that in the event of the death of the depositor, premature termination of such deposit would be allowed. This would not attract any penal charges.

Prohibitions

- *No brokerage in the form of commission or gifts should be paid to collect the deposit.*
- *Gift in excess of Rs.250/- should not be given.*
- *No incentive should be given as price for deposit mobilization schemes.*
- *No advances should be given on fixed deposits of the other banks*
- *No lunch/lottery/free trips oriented deposit scheme can be launched.*
- *Adverts can not be issued highlighting compounded interest without indicating actual simple interest.*
- *Banks can not prematurely repay the term deposit of their customers on their own.*