

UBD.(PCB)78/DC.V.1(B)/92-93

All Primary (Urban) Co-operative Banks

May 26, 1993

Dear Sirs,

Interest Rates on Deposits - Premature Withdrawal

Please refer to paragraphs 11 and 12 of our directive No. UBD.DC.102/V.1-87/88 dated 25 June 1987 regarding premature withdrawal closure of term deposits.

2. As banks are aware, in terms of paragraph 12 of our above directive dated 25 June 1987, in case of premature closure of a term deposit, a deposit in the form of daily deposit or recurring deposit for reinvestment in term deposit interest will be payable without reducing rate by one per cent by way of penalty provided the deposit after reinvestment shall remain with the bank for a period longer than the remaining period of the original contract. However, in terms of paragraph 11 *ibid* if payment under a term deposit is made before the completion of the period of deposit agreed upon at the time of making the deposit, the rate of interest payable in respect of such term deposit shall be the one applicable to the period for which the deposit remained with the bank less one per cent penalty for premature withdrawal. In this connection, it is clarified that if the deposit after reinvestment is withdrawn before the expiry of the period of original contract, the penalty of one per cent is to be levied from the date of original contract upto the date of premature withdrawal after reinvestment. If the premature withdrawal is made after the due date of the original contract, then the penalty is to be levied from the date of reinvestment to the date of premature withdrawal after reinvestment. The position is explained by giving an illustration in the Annexure.

Yours faithfully

(N.T.Hariramani)
Chief Officer

Illustration giving how penalty of 1% is to be levied by primary (urban) co-operative banks in case of premature withdrawal of term deposit etc.

To illustrate, a depositor had invested a sum of Rs. 10,000/- in term deposit on 1 June 1991 for a period of 36 months i.e. upto and inclusive of 31 May 1994. In the wake of revision in interest rates on deposits effective from 24 July 1991, he applied on 1 December 1991 (i. e. on completion of a period of 6 months) for premature closure of the original term deposit for the purpose of reinvestment for a period of 36 months.

Case I: When depositor requests for premature withdrawal of deposit on 1 October 1992

The deposit after premature renewal on 1 December 1991 had remained with the bank only for 10 months (1 December 1991 to 30 September 1992). As this period was less than the remaining period of original contract upto 31 May 1994, it amounts to a premature withdrawal of original term deposit and interest in such case should be paid as under:

From 1.6.1991 to 30.11.1991	1% below the rate applicable for term deposit for 6 months as on 1.6.1991.
From 1.12.1991 to 30.09.1992	1% below the rate applicable for term deposit of 10 months as on 1.12.1991.

Case II : When depositor requests for premature withdrawal of deposit on 1 July 1994

In this case, the deposit after premature renewal on 1 December 1991 has remained with the bank upto 1 July 1994 i.e. after expiry of the original contract upto 31 May 1994. The penalty of 1% reduction in interest will therefore be levied from 1 December 1991, i.e. the date of reinvestment. The interest in this case should be paid as under:

From 1.6.1991 to 30.11.1991	The rate applicable for term deposit for 6 months as on 1 June 1991
From 1.12.1991 to 30.06.1994 (i.e. 2 years & 7 months)	1% below the rate applicable to term deposit of 2 years and 7 months as on 1 Dec 1991

Note: In both the cases, the interest already paid to the depositor while allowing premature withdrawal on 1 December 1991 will have to be adjusted from the interest payable as worked out above.