

November 15, 2007

The Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

**Deposit schemes with lock-in period**

It has been brought to notice of the Reserve Bank that some banks are offering special term deposit products to customers, in addition to regular term deposits, ranging from 300 days to five years, with the following features:

- i. Lock-in periods ranging from 6 to 12 months;
- ii. Premature withdrawal is not permitted during the lock-in period. In case premature withdrawal is allowed during the lock-in period, no interest is paid;
- iii. Rates of interest offered on these deposits are not in tune with the rates of interest on normal deposits and
- iv. Part pre-payment is allowed by some banks subject to certain conditions.

2. In this connection, a reference is invited to paragraph 17.1 (i) of Master Circular UBD No. BPD.MC.No.1/13.01.000/2007-08 dated July 2, 2007 on 'Interest Rates on Rupee Deposits -UCBs' in terms of which, banks were advised not to discriminate in the matter of interest paid on deposits, between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank, except in respect of fixed deposit schemes specifically for resident Indian senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size, and single term deposits of Rs.15 lakh and above on which varying rates of interest may be permitted on the basis of size of the deposits.

3. Before launching new domestic deposit mobilization schemes with the approval of their respective Boards, they should ensure that the provisions of RBI directives on interest rates on deposits, premature withdrawal of term deposits, sanction of loans/advances against term deposits, etc., issued from time to time, are strictly adhered to. Any violation in this regard will be viewed seriously and may attract penalty under the Banking Regulation Act, 1949 (AACS).

4. It is clarified that the special schemes, with lock-in periods and other features referred to at paragraph 1 above, which have been floated by some banks, are not in conformity with our instructions. Banks that have floated such deposit schemes are,

therefore, advised to discontinue the schemes with immediate effect and report compliance to Regional Office concerned of Reserve Bank.

Yours faithfully

(A. K. Khound)  
Chief General Manager.