

FCNR (B) ACCOUNTS

- The Foreign Currency Non-Resident (FCNR (B)) scheme, introduced w.e.f. 15.05.1993. It covers deposits denominated in any “permitted Currency” which is freely convertible (w.e.f. 19.10.11) from non-resident individuals of Indian nationality or origin (NRIs).
- The deposits (term deposits) are being accepted by banks (AD) for fixed maturities as under:-
 - a) 1 year and above but less than 2 years;
 - b) 2 years and above but less than 4 years;
 - c) 4 years and above but less than 5 years;
 - d) 5 years only
- Recurring Deposits are not being accepted under the Scheme. Repatriation of funds in foreign currencies is permitted. Transfer of funds from existing NRE accounts to FCNR (B) accounts and vice versa of the same account holder is permissible without prior approval of RBI.

Payment of Interest

- The present ceiling rate in respect of FCNR(B) deposits for the respective currency / corresponding maturity is LIBOR/SWAP rate plus 200/300 basis points, as the case may be, effective from the close of business in India as on May 4, 2012. Bank should obtain prior approval of its Board of Directors for the interest rates that it will offer on deposits of various maturities within the ceiling prescribed by RBI.
- FEDAI quotes / displays the LIBOR / SWAP rates which should be used by banks in arriving at the rates of interest to be offered on FCNR (B) deposits. The rates are displayed in the FEDAI website.
- The interest on the deposits accepted under the scheme shall be paid on the basis of 360 days to a year. The interest should be calculated and paid at intervals of 180 days each and thereafter for the remaining actual number of days. However, the depositor will have the option to receive the interest on maturity with compounding effect.
- Banks may at its discretion, allow additional interest at a rate not exceeding 1% p.a. over and above the rate of interest prescribed by the bank in respect of a deposit accepted in the name of bank's staff member or a retired member of the bank's staff, either singly or jointly with any other member or members of his/her family, or the spouse of a deceased member or a deceased retired member of the bank's staff, subject to:
 - a) The depositor or all depositors of a joint account is/are non-resident/s of Indian nationality or origin;

- b) The bank should obtain a declaration from the depositor concerned that the moneys so deposited or which may, from time to time, be deposited, shall be moneys belonging to the depositor,
 - c) The rate fixed by the bank for deposits of staff members, existing or retired, should not exceed the ceiling rate prescribed by RBI.
- Premature withdrawal, at the specific request of the depositor, is permitted under the Scheme. No interest is payable in case of premature within the minimum period of 1 year and bank may at its discretion levy penalty to cover the swap cost. In other cases, banks are free to charge penalty for such premature withdrawal at their discretion. Conversion of FCNR (B) deposits into NRE deposits or vice-versa before maturity should be subject to the penal provision relating to premature withdrawal.
 - Banks may, at their discretion, renew an overdue deposit or a portion thereof and pay appropriate interest provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days.
 - In case the overdue period exceeds 14 days and the deposit or a portion of the deposit is being retained with the bank as a fresh deposit in the Scheme, banks may fix their own interest rates for the overdue period on the amount so placed as a fresh term deposit. Banks can recover the interest so paid for the overdue period if the deposit is withdrawn before completion of the minimum stipulated period under the scheme after renewal.
 - In case of reinvestment deposits, banks should pay interest for the intervening Saturday/Sunday/holiday/non-business working day on the maturity value whereas in the case of ordinary term deposits, the interest for the intervening Saturday/Sunday/holiday/non-business working day should be paid on the original principal amount.

Advance against FCNR (B) Deposits

- The earlier guidelines that banks should not grant fresh loans or renew existing loans denominated in rupees in excess of Rs. 100 Lakh against FCNR (B) deposits either to the depositors or to third parties have been reviewed/withdrawn. As per the extant guidelines banks are allowed to grant both Rupee and Foreign Currency Loans in India and outside India respectively without any ceiling subject to usual margin requirements. The margin requirement shall be notionally calculated on the rupee equivalent of the deposits.
- The facility of premature withdrawal of NRE/FCNR deposits shall not be available where loans against such deposits are to be availed of.

- Bank would be free to charge interest on loan or an advance against the FCNR (B) deposit which stands in the name of the borrower either singly or jointly without referring to its Base Rate. In case of withdrawal of the deposit before completion of the prescribed minimum maturity period, such an advance should not be treated as advance against term deposit and interest should be charged as prescribed by RBI (interest on advances) from time to time.
- When a loan or advance is granted out of resources mobilized under the scheme, interest rate chargeable should be at the rate as prescribed in terms of RBI's directive relating to Interest Rates on Advances.
- In the case of a term deposit standing in the name/s of a deceased individual depositor, or two or more joint depositors, where one of the depositors has died, interest should be paid at the contracted rate on the maturity of the deposit. Even in case of premature payment no penal interest should be levied and rate as applicable for the period for which funds remained with the bank should be applied.
- In the event of death of the depositor before the date of maturity of the deposit and the amount of the deposit being claimed after the date of maturity, the bank is required to pay interest at the contracted rate till the date of maturity and from the date of maturity to the date of payment, the bank may pay simple interest at the applicable rate operative on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity.
- In case of death of the depositor after the date of maturity of the deposit, the bank may pay interest at a rate operative on the date of maturity in respect of savings deposits held under RFC Account Scheme, from the date of maturity till the date of payment;
- If, on request from the claimant/s, the bank agrees to split the amount of term deposit and issues two or more receipts individually in the name/s of the claimant/s, it should not be construed as premature withdrawal of the term deposit for the purpose of levy of penalty provided the period and aggregate amount of the deposit do not undergo any change.
- At the request of all the joint account holder/s, bank may allow addition or deletion of name/s of joint account holder/s without altering the amount or duration of the original deposit and all the joint account holders should be non-residents of Indian nationality or origin.

Payment of interest on FCNR (B) deposits of NRIs on return to India

- Banks may allow interest at contracted rate to the depositor who returns to India for permanent settlement, if desired till the maturity date. Except the provision relating to rate of interest and reserve requirements as applicable to FCNR(B) deposits, for all other purposes, such deposits should be treated as resident deposits from the date of return of the account holder to India.
- Banks should convert the FCNR (B) deposits on maturity into Resident Rupee Deposit Account or RFC Account (if eligible) at the option of the account holder. The rate of interest on the new deposit (Rupee account or RFC Account) should be the relevant rate applicable for such deposit account. No penalty would be charged in the case of

premature conversion of balances held in FCNR (B) deposits into Resident Foreign Currency Accounts (RFC) by Non-Resident Indians on their return to India.

- Bank may pay interest at its discretion at the time of conversion of FCNR(B) Account into RFC/Resident Rupee Account even if the same has not run for a minimum maturity period, subject to the condition that the rate of interest should not exceed the rate payable on savings bank deposits held under RFC Account Scheme.

Prohibitions/ Restrictions

Bank should not:-

- i) accept or renew a deposit beyond 5 years;
- ii) Differentiate/ discriminate rate of interest paid on the 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 on the size group basis.

The permission to offer varying rates of interest based on size of the deposits will be subject to the following conditions:

- a) Banks may, at their discretion, decide the currency-wise minimum quantum on which differential rates of interest may be offered. For term deposits below the prescribed quantum with the same maturity, the same rate should apply.
 - b) The differential rates of interest so offered should be subject to the overall ceiling prescribed.
 - c) Interest rates paid by the bank must be as per the schedule and not subject to negotiation between the depositor and the bank.
- iii) pay brokerage, commission or incentives on deposits mobilized under FCNR(B) Scheme in any form to any individual, firm, company, association, institution or any other person.
 - iv) 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.
 - v) Accept interest-free deposit or pay compensation indirectly.

(Source: RBI M. Circular/
Updated upto Oct. 2012)

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