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Dear Comrades,

14th October , 2016

News of Interest 14th Oct

QUOTE OF THE DAY

“DON'T GIVE UP. DON'T LOSE HOPE. DON'T SELL OUT. “

CHRISTOPHER REEVE

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Business Standard

1. Interest earned by Indians on bank deposits at record low

Interest rates on a normal savings account have remained constant under the NDA government at 4 per cent

Sai Manish

The amount of interest earned by millions on their small savings and fixed deposit accounts has hit an all-time low. This has been revealed in the Indian Public Finance Statistics for 2015-16, released by the finance ministry on Thursday.

The interest rates on a normal savings account have remained constant under the NDA government at four per cent. With consumer inflation above five per

cent in August this year, a regular savings account holder is actually losing money.

While savings account rates were a constant, there has been a decline in all other term rates. A fixed deposit for three years was earning an interest rate of 8.4 per cent under the erstwhile UPA-II regime and first year of the NDA government. However, over the last year, the interest rates on such deposits have declined by a per cent. Those with one and two-year maturities now earn 7.1 per cent and 7.2 per cent, respectively. The popular tax saving and long-term planning instrument of the middle class — the five-year fixed deposit — now carries an interest rate of 7.9 per cent, instead of 8.4 per cent a year ago. At the start of the 21st century, the interest earned on a fixed deposit was more than 11 per cent.

Those looking to save for a car or a honeymoon with a recurring deposit too have been left in the lurch. Interest rates on these regular saving schemes are down by a per cent to 7.4 per cent, compared with last year.

Also hit hard in this low-interest rate regime are retirees and senior citizens who rely on the monthly income scheme of India Post. The return on their savings is down to 7.8 per cent from a high of 8.5 per cent during UPA-II. The Senior Citizens Savings Scheme (SCSS) rates have fallen by close to a per cent as compared to 9.3 per cent last year.

People looking to save tax and accumulate money for a future exigency through the National Savings Certificate (NSC) have also been impacted. Not only did the government discontinue the high interest yielding 10-year NSC in December 2015, the interest rates on five-year NSCs too have fallen to 8.1 per cent, compared with 8.5 per cent last year.

Public Provident Fund (PPF), the preferred post-retirement corpus of millions of Indians, now gives 8.1 per cent interest to depositors, compared with 8.7 per cent in the previous year.

Finance Minister Arun Jaitley has been advocating for lower interest rates as a measure to reinvigorate investment in India. Jaitley's logic is this — if banks pay their depositors less interest, they would be able to lend at lower rates to businesses, which would encourage them to borrow more, invest more and, in the process, create more jobs for 13 million Indians entering the workforce every year.

But banks haven't really reduced the rates at which they lend while reducing the interest they pay to depositors. Despite the fact that the RBI, under Raghuram Rajan, had cut its benchmark rates by 1.5 per cent since 2015.

One of the reasons for the banks' behaviour is their astronomical non-performing assets (NPAs) that have touched Rs 5.4 lakh crore in 2016. N R Bhanumurthy of the National Institute of Finance and Public Policy says, "Banks have reduced interest rates in a bid to clean their books. If banks cannot recover their loans from defaulters like Kingfisher Airlines, then the losses will have to be offset by reducing the interest rate on the savings of ordinary depositors."

2. Banks refute BBB Chairman's claims on bad loan clean up

Vinod Rai says banks not doing enough to clean up the NPA mess

Abhijit Lele & Nupur Anand

Banks have strongly denied concerns expressed by Banks Board Bureau Chief Vinod Rai that lenders are not proactively working on cleaning up bad

loans.

Bankers said the recovery process is slow and takes times because of several issues including legacy, legal hurdles and pricing mismatch in loans being sold to asset reconstruction companies (ARCs). However, this doesn't translate to a lack of insufficient work being done by banks.

A senior Bank of Baroda executive said banks, especially public sector lenders, have been working hard on recoveries over the past 18 months. "The pace of resolution remains slow because of lengthy legal process for action against defaulters, especially those with resources, but who use every tactic to avoid payments. As for sale of non-performing assets (NPAs) to ARCs, banks employees are afraid that decision about pricing would be questioned endlessly by various agencies (such as the Comptroller and Auditor General, Central Vigilance Commissioner, and the Central Bureau of Investigation). They do not want get entangled in legal battles after retirement," said the official, requesting anonymity.

Rai had said banks are not making enough progress on NPAs and they are to be blamed as the Reserve Bank of India and the Centre have created a conducive environment, but the lenders haven't done enough.

A State Bank of India executive strongly refuted Rai's allegation and said it was incorrect to say banks have not done enough. "There is definitely change in attitude now and many new legal provisions have given more teeth for taking action against defaulters, especially big-ticket units," he added.

Gross NPAs of public sector banks (PSBs) have risen from Rs 5.02 lakh crore in March to Rs 5.59 lakh crore in June. According to the financial stability report, gross NPAs had increased to 7.6 per cent at the end of the quarter ended March from 5.1 per cent in the September quarter.

However, former RBI governor Raghuram Rajan had lauded banks in one of his speeches in August saying the central bank was comfortable with the NPA clean-up and banks had taken a lot of steps in the right direction.

RBI had also acknowledged that the rate of addition to bad loans has reduced, which was another positive as on the other hand recovery has picked up.

3. Asset backed retail loans' quality to improve in 2 years: Moody's

Banks' retail loans have in fact seen their performance improve over the past five years

Press Trust of India

Moody's Investors Service said on Thursday the asset quality of retail loans backing Indian asset-backed securities (ABS) will improve over the next two years, despite an expected uptick in non-performing loans.

It expected the performance of loans backing commercial vehicles and construction equipment to improve owing to favourable operating conditions and increased efforts by originators to prevent delinquent loans from progressing into NPLs.

"Although retail loans originated by NBFCs account for the bulk of assets backing Indian ABS, we expect improving macroeconomic conditions and more rigorous collection processes by originators will boost their underlying performance," Moody's Analyst Vincent Tordo said.

The underlying performance and asset quality of retail loans backing Indian asset-backed securities (ABS) will improve over the next two years due to tightened recognition criteria, Moody's said.

The new NPL criteria require NBFCs to recognise loans that are 150 days or more in arrears as NPLs, compared to 180 days previously. The standard will further tighten to 120 days from March 2017 and 90 days from March 2018.

While Moody's expects NPL ratios reported by NBFCs to rise over the next two years as a result of the new criteria, it expects the improving underlying performance to be reflected in lower delinquencies rates.

Moody's report also highlights that Indian ABS are largely immune from the run-up in NPLs in the Indian banking sector, because Indian ABS are exclusively backed by loans originated by NBFCs and not by banks.

In addition, the vast majority of assets backing ABS are retail or small loans, while the increase in bank NPLs has been largely the result of poor performing corporate loans to borrowers in heavy industries.

Banks' retail loans have in fact seen their performance improve over the past five years.

Moody's further notes that the categorisation of delinquent loans as NPLs at an earlier stage will bring the Indian market more in line with global practices, thereby allowing a better comparison of the performance of Indian ABS with those in other markets.

Banks' retail loans have in fact seen their performance improve over the past five years.

Financial Express

4. In a first, Bank deposits cross Rs 100 lakh crore

India's banking system reported total deposits of Rs100 lakh crore for the first time ever in September, data released by the RBI show, reports Shakti Patra in Mumbai.

By: Shakti Patra

India's banking system reported total deposits of Rs 100 lakh crore for the first time ever in September, data released by the RBI show, reports Shakti Patra in Mumbai. With demand deposits crossing R10 lakh crore and time deposits crossing the Rs 90 lakh crore mark, the month saw the highest-ever monthly rise of Rs 5.32 lakh crore — more than the total deposits in the banking sector 20 years back.

Although Rs 100 lakh crore is a big milestone, historical data reveal deposit growth slowed down considerably over the last five years. While banks' deposits grew at a CAGR of 12.88% in the last five years, they had grown at a CAGR of 19.9% in the previous five years. The slowing down in the pace of deposit growth was in line with the slowing down of M3 or broad money supply in the economy. An analysis of historical data suggests that while M3 in India grew at well over 20% (y-o-y) for several years in the middle of last decade, it has been growing in the sub-teens in recent years.



In the fortnight ended September 16, M3 stood at R121.9 lakh crore, having grown by 10.9% over the same quarter last year.

5. Home loan payment: Here's how to reduce your interest payment

FOR most homebuyers, paying the equated monthly installment (EMI) for the loan means a big cash outflow. Any reduction in the interest rate is beneficial for borrowers, especially in case of a floating rate home loan.

By: Saikat Neogi

FOR most homebuyers, paying the equated monthly installment (EMI) for the loan means a big cash outflow. Any reduction in the interest rate is beneficial for borrowers, especially in case of a floating rate home loan. While the Reserve Bank of India reduced the repo rate by 25 basis points to 6.25% on October 4, banks may soon reduce their marginal cost of lending rate.

Increase your EMI amount

One of the immediate benefits of a rate cut is that a new borrower's home loan eligibility amount will increase. When lenders reduce the interest rate of home loan, for an existing borrower the bank either keeps the EMI unchanged and reduces the loan term or reduces the EMI and increases the loan tenure. It always makes sense to either keep the EMI amount unchanged or increase the EMI so that the interest outgo for the entire tenure is reduced significantly. Analysts say when the interest rates drop, the borrower should increase the EMI and accelerate the repayment of the outstanding principal.

Ideally one's EMIs should not exceed 40-50% of his monthly income. If the EMI is much lower than this, increasing EMI is an effective way to make sure the loan is paid out early. Increase in EMI can be requested at any point of time during the loan and usually there are no charges for such a request.

Prepay early

The natural tendency for most homebuyers is to prepay the housing loan as soon as possible. The strategies borrowers adopt to make their prepayment vary widely. One can opt to make partial payments at regular intervals, say every six months or one year to repay the loan quickly and save the interest as banks and housing finance companies do not charge any pre-payment penalty for principal repayment.

A borrower can prepay the total outstanding from their own savings and close the loan. However, it will take away all cash and one can miss out any alternative investment option where the rate of return is more than the home loan rate. Typically, in a home loan, the interest payout is much higher in the beginning of the payment schedule. As one repays the principal amount, the interest part starts reducing while principal component increases. So, it makes

sense to prepay at the beginning of the loan tenure than later in the payment schedule.

Refinance the loan

If your lender is charging you more interest rate, do switch the bank. A borrower can approach another bank with lower interest rate to refinance the loan. However, one has to keep in mind that sometimes the interest rate differential can be so low that the borrower may end up paying more in one-time charges than saving in lower EMI.

Ensure that the difference in the interest rate

Between your existing lender and the new one is at least 75-100 basis points as you have to pay processing (around 0.25% of the loan due) and legal fees to switch the existing loan to the new lender. It makes sense to switch the loan only if more than seven years of repayment remain. It is not always advisable to shift the home loan from one bank to the other just because of lower interest rate. The borrower must calculate the actual amount that he can save by switching the loan and after adjusting all the charges.

6. Bank of Baroda announces brand endorsement with P V Sindhu, K Srikanth

Public lender Bank of Baroda today sealed a principal sponsorship contract with badminton Olympians P V Sindhu and K Srikanth.

By: [PTI](#) |

Public lender Bank of Baroda today sealed a principal sponsorship contract with badminton Olympians P V Sindhu and K Srikanth.

"The three-year deal with the two players was agreed in-principle before they represented and made India proud on the international stage at the Rio 2016 Olympics," the bank said in a statement.

Bank of Baroda logo will now appear on the centre chest of the two athletes' playing jerseys in international and domestic tournaments under the aegis of Badminton World Federation Events- (BWF) and Badminton Association of India-sanctioned events, respectively.

On the occasion, the Olympic silver medallist Sindhu said: "I was always keen to be associated with a brand which would complement my persona. I am humbled and proud of being associated with an institution whose legacy is more than a century old."

K Srikanth said he understands the importance of getting a sponsorship from a brand at this early stage of his career.

"It fills me with new zeal, spirit and energy to keep up my performance and build popularity for badminton," the shuttler said.

According to Executive Director of Bank of Baroda Mayank Mehta, both Sindhu and Srikanth are "household names" because of their glorious achievements.

"The bank is very excited to have both of them on board and we look forward to a strong bonding and a fruitful association in years to come," he said.

Business Line

7. Muthoot Exim rolls out van service to collect gold from sellers' doorstep

OUR BUREAU

Muthoot Exim Pvt. Ltd, the precious metals division of the 129-year-old Muthoot Pappachan Group, has launched 'Mobile Muthoot Gold Point', which allows people to sell their old gold at their doorstep and convenience.

The company will send a vehicle to collect gold directly from customers at their doorsteps. The public can call for the mobile van between 10:30 am to 7.00 pm and fix an appointment at a mutually convenient time.

The valuation of the old gold/ornaments will be done in the state-of-the-art mobile van, which features XRF technology as well as the facility to melt the gold (if required and agreed upon by the customers) to provide accurate valuation.

Instant cash

Customers can get instant cash (for value up to ₹20,000) or credit via IMPS, NEFT, RTGS (for value above ₹20,000).

Online payment will directly be credited to the customer's account.

Thomas George Muthoot, Director, Muthoot Pappachan Group, said:

"The move will also be in sync with the government's vision to recycle as much gold as possible and our mobile van service will help facilitate it better.

"I am sure this latest innovation will be well received as it provides a hassle-free atmosphere for anyone wanting to sell their used gold."

Muthoot Exim has tied up with Sequel Logistics for the security of the 'Mobile Muthoot Gold Point' vehicle.

8. South Indian Bank bags award

OUR BUREAU

South Indian Bank has been conferred with the Export Excellence Award 2014-15 in the Best Financial Institution Category (Southern Region), in recognition of the bank's Forex Earnings and Services to Exporters.

The award instituted by the Federation of Indian Export Organisations was received by V.G. Mathew, MD & CEO of the bank from Nirmala Sitharaman, Minister of State for Commerce and Industry, at a function held recently in Chennai.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**