

Fixed Deposits: How are interest amounts calculated?



NatWest
Markets

The NatWest Markets Fixed Deposit Account offers various plans with options in interest rates and tenures. You can either withdraw your interest on a quarterly basis or reinvest it. Interest calculation methodology remains the same across all plans. To understand it in detail, do read on

Scenario One – Payout

Under this scenario, you will receive interest earned on a quarterly basis. The table below explains in detail:

PRINCIPAL	Rs.100000
ROI	4.0%p.a
TENURE	288 days
START DATE	1-Apr-10
MATURITY DATE	14-Jan-11

DATE	DAYS RUN PERIOD	GROSS INTEREST	PAYOUT AMOUNT
1-Apr-10			
1-Jul-10	91	Rs 997.26	Rs 997.26
1-Oct-10	92	Rs 1008.22	Rs 1008.22
1-Jan-11	92	Rs 1008.22	Rs 1008.22
14-Jan-11	13	Rs 142.47	Rs 142.47

Notes: Interest is compounded on a quarterly basis for deposits exceeding 6 months tenure. TDS is dependent on the prevailing rate as prescribed by Income Tax authorities, depending on customer type (individual/non- individual) and rebate applicable for the financial year. Net interest amount is used for Payout / Compounding purpose.

Suppose you invest Rs. 1, 00,000 at 4.0% p.a. for a period of 288 days on April 1, 2010. Since interest is payable on a quarterly basis, you will be paid Rs. 997.26 on July 1, 2010, which is for 91 days. Similarly, you will be paid Rs. 1008.22 as interest for the periods ending on October 1, 2010 and January 1, 2011, which are for 92 days (number of days elapsed between two payout dates). Given that the investment tenure is 288 days, the day of maturity will be January 14, 2011. On this date, you will receive Rs. 1, 00,142.47 that will include your initial investment of Rs. 1, 00,000 as well as the interest for the remaining

13 days from January 1, 2011 to January 14, 2011, i.e. Rs. 142.47. Under this option, you keep receiving interest on a quarterly basis rather than receiving it as a lump sum on the date of maturity.

Scenario Two - Reinvestment

This plan will get you interest on a cumulative basis, i.e. the interest earned by you in each quarter will be added to the principal amount. So in each quarter, you will be receiving interest even on the interest earned in the previous quarter

PRINCIPAL	Rs.100000
ROI	5.0%p.a
TENURE	270 days
START DATE	22-Jun-09
MATURITY DATE	19-Mar-10
MATURITY AMOUNT	Rs. 103744.40

DATE	DAYS RUN PERIOD	GROSS INTEREST	PAYOUT AMOUNT
22-Jun-09			
22-Sep-09	92	Rs 1260.27	Rs 101260.27
22-Dec-09	91	Rs 1262.29	Rs 102522.56
19-Mar-10	87	Rs 1221.84	Rs 103744.40
19-Mar-10			Rs 103744.40

Notes: Interest is compounded on a quarterly basis for deposits exceeding 6 months tenure. TDS rate is dependent on the prevailing rate as prescribed by Income Tax authorities, depending on customer type (individual/non- individual) and rebate applicable for the financial year. Net interest amount is used for Payout / Compounding purpose

Suppose you invest Rs. 1, 00,000 at 5.0% p.a. for 270 days on June 22, 2009. Since interest is payable on a quarterly basis, you will earn Rs. 1260.27 as interest on September 22, 2009 for 92 days. This amount will be added to your investment of Rs. 1, 00,000. So in the next quarter that ends on December 22, 2009, you will receive interest on the initial amount invested as well as the interest earned in the previous quarter, i.e. on Rs. 101260.27. This interest of Rs. 1262.29 will be added again to the accumulated balance mentioned.

This process will continue until the maturity of the investment, when you'll receive the whole amount of Rs. 103744.40. This way, the amount of interest earned by you will keep increasing in each quarter, since you will earn interest on not just the original amount invested but also on the total interest earned until then.

Scenario Three - Premature Closure

You can withdraw your money prematurely also. However, in such a scenario the rate of interest chargeable will be equivalent to the PERIOD RUN RATE minus 1%.

PRINCIPAL	Rs.100000
ROI	7.25%p.a
TENURE	396 days
START DATE	13-Dec-01
MATURITY DATE	13-Jan-03
MATURITY AMOUNT	Rs 108111.12
PREMATURE CLOSURE DATE	16-Nov-02
ROI - FOR PERIOD RUN	7.00%
RATE OF INTEREST ON WHICH PAYOUT IS MADE	7.0%-1%=6.0%
FINAL PAYOUT	Rs 105672.22

ORIGINALDATE	DAYS RUN	GROSS INTEREST	PAYOUT AMOUNT
13-Dec-01			
13-Mar-02	90	Rs 1787.67	Rs 101787.67
13-Jun-02	92	Rs 1860.07	Rs 103647.74
13-Sep-02	92	Rs 1894.06	Rs 105541.79
13-Dec-02	91	Rs 1907.70	Rs 107449.50
13-Jan-03	31	Rs. 661.62	Rs. 108111.12

PENAL FLOW	DAYS RUN	GROSS INTEREST	PAYOUT AMOUNT
13-Dec-01			
13-Mar-02	90	Rs 1479.45	Rs 101479.45
13-Jun-02	92	Rs 1534.70	Rs 103014.16
13-Sep-02	92	Rs 1557.91	Rs 104572.07
16-Nov-02	64	Rs. 1100.16	Rs. 105672.22

Notes: The above example is of re-investment of interest, in case of interest pay out, the excess Interest paid will be recovered from the principal. In case TDS is deducted then the same will not be refunded.

Suppose you invest Rs. 1, 00,000 at 7.25% p.a. for 396 days on Dec 13, 2001. Since interest is payable on a quarterly basis, you will earn Rs. 1787.67 as interest on Mar 13, 2002 for 90 days. This amount will be added to your investment of Rs. 1, 00,000. So in the next quarter that ends on June 13, 2002, you will receive interest on the initial amount invested as well as the interest earned in the previous quarter, i.e. on Rs. 101787.67. This process will continue until the maturity of the investment, when you'll receive the whole amount of Rs. 108111.12.

However, if you opt for a premature closure of FD on Nov 16, 2002, the rate of interest on which the payout is made will be calculated post deducting penalty of 1% from the ROI for the period run. Therefore, the new ROI will be calculated post deducting 1% from rate of interest of 7% applicable for 338 days. Hence the new rate of interest will be $7\% - 1\% = 6\%$.

With the revised rate of 6%, you will earn Rs. 1479.45 as interest on Mar 13, 2002 for 90 days. This amount will be added to your investment of Rs. 1, 00,000. So in the next quarter that ends on June 13, 2002, you will receive interest on the initial amount invested as well as the interest earned in the previous quarter, i.e. on Rs. 101479.45. This process will continue until the maturity of the investment, when you'll receive the whole amount of Rs. 105672.22 on Nov 16, 2002.