

# 9.25% interest on 700 days FD, 7.2% on 390 days FD: How to select special bank fixed deposit for best return

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## Synopsis

Fixed deposit investment: Odd-tenure or special FDs are offering higher interest rates than traditional ones. Should you blindly go for it to get some extra return? ET Wealth explains how you should invest in special fixed deposits to get maximum return.



While selecting a fixed deposit, you must look at the tenure you want to invest for, said experts.

Banks have been continuously raising interest rates on fixed deposits (FDs) of various tenures over the past one year. However, if you are looking for regular tenures like one year, two years, three years, five years, and 10 years, then you may miss some of the best FD rates currently being offered by banks. This is because there are special rates offered by many banks on some specific

tenures which are different from regular tenures.

For instance, [Kotak Mahindra Bank](#) is offering a 7.2 per cent interest rate on FDs for 390 days whereas a 364-day deposit earns 6.2 per cent. [State Bank of India \(SBI\)](#) will give you an interest rate of 7.10 per cent, a whopping 1.35 per cent extra just for holding your deposit for 400 days while a [fixed deposit](#) maturing in less than a year earns only 5.75 per cent interest in this public sector bank. Small finance banks are even one step ahead in this number race. Utkarsh Small Finance Bank will give senior citizens as high as 9.25 per cent for a 700-day special deposit. Senior citizens can get an interest rate of 9.5 per cent for special deposits maturing in 1001 days in the Unity Small Finance Bank. In short, you can easily earn some 0.25-1.35 per cent guaranteed higher returns by locking money in odd tenures than regular ones. Should you blindly go for it and just get some extra return?

First, let us understand why banks offer higher interest rates for odd tenures. Banks determine the tenures of deposits based on their lending cycle. These odd periods are generally meant to match the bank's assets and liability in a particular period said experts. For example, if the bank has a higher demand for two-year loans, then it will offer a 700-day deposit. In short, the banks are ensuring that they have enough money to offer loans by extending the tenure of matching fixed deposits. "The rate for tenures is a function of their underlying loan book. Banks offer higher rates when they want to match their borrowing tenure and are posed with mismatches," said Suresh Sadagopan, an RIA and founder of Ladder7 Financial Advisors.

### **How to select the right FD tenure**

While selecting a fixed deposit, you must look at the tenure you want to invest for, said experts. "The tenure of your fixed deposit must match your investment horizon," said Sadagopan. "If you just want to invest for getting decent returns, you can consider special tenures offering good rates. Else, go for relatively shorter tenures," he added.

As the rising interest rate scenario continues, following this strategy could help you to reinvest the amount at a higher rate at the time of maturity as the interest rates are expected to go up further for a few quarters, he mentioned.

### **Check this before investing in an odd-tenure FD**

You must remember that odd-tenure FDs might give you a slightly higher return than the traditional FDs but most of them are non-callable. So, you will not have an option for premature withdrawal with a penalty in an odd-tenure deposit, unlike the traditional fixed deposits. To get the best return from deposits, experts suggest spreading your FD amounts between special tenure and regular tenure. "A combination of different tenures of deposits to reduce reinvestment risk would be great for investors. They can use a laddered approach to park their money in fixed deposits. So that different deposits mature at different times. Thereby, the risk of having all FDs maturing at the same time, and getting reinvested at prevailing rates (high or low) at that time is mitigated," said Vishal Dhawan, a CFP and founder of Plan Ahead Wealth Advisors.

Further, while booking an odd-tenure or short-term fixed deposit, avoid choosing the auto-renewal option. If you have opted for the auto-renewal option in your fixed deposit, the proceeds will be reinvested in the FD of same tenure at the time of maturity. At a time when banks are increasing deposit rates so frequently, it is better to avoid auto-renewal option, said experts. "This will allow them to choose the FD tenure, at the time of renewal, based on their investment horizon and the various interest rate slabs offered by the banks," said Gaurav Aggarwal - Senior Director, Paisabazaar.

### **FD investment: Not just high return, safety first**

Lastly, don't just go by the lucrative 8.5-9 per cent interest rate. While parking money in a deposit, you must check how safe and reliable the bank is. The deposits in scheduled banks, which includes small finance banks, are insured under the Deposit Insurance Credit Guarantee Corporation's (a wholly-owned subsidiary of the RBI) deposit insurance scheme to the tune of Rs 5 lakh. This insurance includes both the principal and interest amounts. "Depositors should not invest in FDs where the interest rates are high without checking other factors such as the quality of the bank or NBFC where the money is being invested. It is important to find a good balance between returns and safety whilst making your choice," Dhawan said.

"Depositors can spread their FDs among multiple banks offering higher FD yields in such a way that the cumulative deposits with each of those banks do not exceed Rs 5 lakh," Aggarwal added.