RBI Floating Rate Savings Bonds

Key Features:

01 Issuer

RBI Floating Rate Savings Bonds (FRSB) 2020 (Taxable) is issued by the **Reserve Bank of India (RBI)** on behalf of the Government of India

02 Rate of Interest (ROI)

Present – 8.05%
ROI Reset – **National Savings Certificate (NSC) ROI + 35 bps** & reset every 6 months

03 Safety

Very High – No credit risk or price risk (as there is no mark-to-market)

04 Tenure & Lock-in

Lock-in - 7 years. There is no premature withdrawal option, but senior citizens get the option to prematurely withdraw depending upon the age

05 Income Option

Half yearly interest payable with no cumulative option

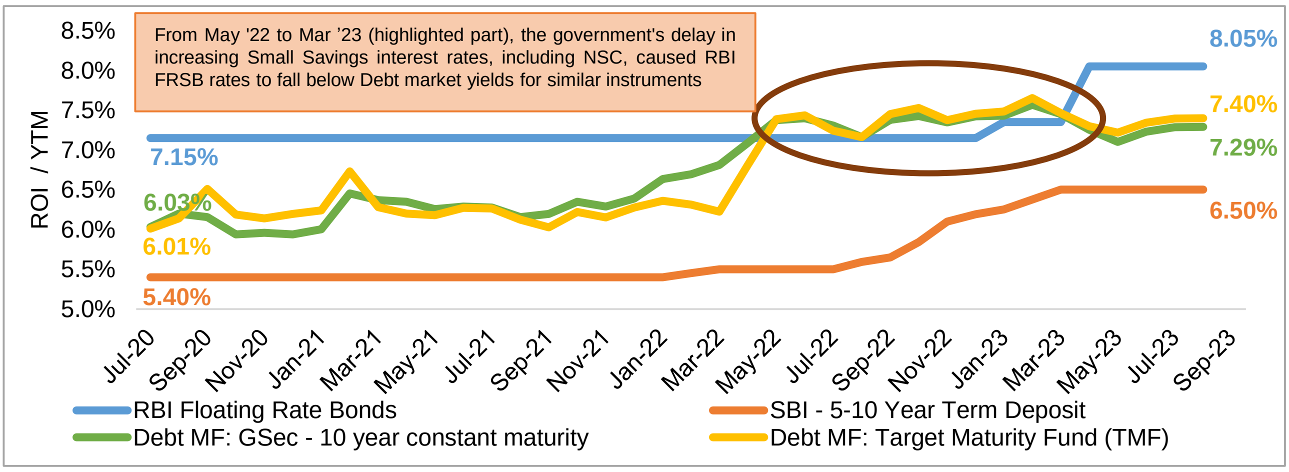
06 Taxation & TDS

Taxed at **Marginal Tax rate**.
Tax is deducted at source, while paying interest if the amount of interest exceeds ₹ 10K in a Financial Year.

Comparison with similar instruments:

Keeping in mind the above features of **RBI Floating Rate Savings Bonds,** we have considered three other similar instrument:

- **State Bank of India (SBI) – 5 – 10 years Term Deposit interest rates:** Premature withdrawal permitted only after levy of penalty, no marked to market risk and quality of paper is almost similar to RBI Floating Rate Savings Bonds
- **Debt Mutual Fund (MF) - GSec with 10 year constant maturity (Category average Yield to Maturity (YTM)):** Though they have mark-to-market risk, the underlying quality of paper and the tenure of the fund are similar to RBI Floating Rate Savings Bonds.
- **Debt Mutual Fund (MF) - Target Maturity Funds (Category Average YTM):** These bonds are usually held till maturity and have a paper quality underlying portfolio of usually AAA PSU and/or State Development Loans (SDL).



Source: RBI – Floating Rate Bonds – National Savings Institute India; SBI – Term Deposit Rates – SBI Website; Average YTM of Debt Mutual Funds (GSec - 10 year constant maturity & TMF) – Morningstar Direct

Comparison with similar instruments …

Parameters	RBI - Floating Rate Savings Bond	SBI -Term Deposit	Debt MF - GSec with 10 year Constant Maturity	Debt MF - Target Maturity Funds
Issuer	Reserve Bank of India	State Bank of India	Debt funds that invest in government securities, having a constant maturity of 10 years	Underlying as a passive debt index of typically AAA PSU bonds and/or SDL
Tenure & Lock-in	• Lock-in period of 7 years. • No premature withdrawal option, but senior citizens get the option to prematurely withdraw money with a penalty after a minimum lock-in period. Age (Years) — Min lock-in (Years) 60 - 70 — 6 70 - 80 — 5 > 80 — 4	• Bank term deposit come with a lock-in of the specified period chosen for and any premature withdrawal, will lead to a levy of penalty	• Various tenure options – usually longer tenure; no lock-in and no exit load. • Suitable for anyone looking for long-term allocation to debt.	• Various tenure options; no lock-in and no exit load. • Suitable for anyone looking for allocation to debt matching the effective maturity of the fund.
Income Option	Half yearly interest payable with no cumulative option	Cumulative and Non Cumulative both available	No pay-outs, interest is reinvested in the same portfolio. However dividend (IDCW) pay-out option is available.	
Taxation / TDS	Taxed at Marginal Tax rate. Tax is deducted at source (TDS); while paying interest if the amount of interest exceeds Rs. 10,000 in a Financial Year		Taxed at Marginal Tax rate. No TDS as investors usually invest in cumulative option and the amount received is in the form of capital gains	
Credit Risk	No credit risk	Negligible credit risk	No credit risk	Negligible credit risk
Price Risk / Mark to Market	No		Yes	
Current Coupon (Aug '23)	8.05%	6.50%	7.00% - 7.50% (YTM)	
ROI Reset	NSC ROI + 35 bps; reset every 6 months	Below the prime lending rate; reset on ad-hoc basis	NA	
Average ROI (Jul '20 till date i.e. Aug '23)	7.28%	5.70%	6.74% (Average YTM)	

Suitability:

Individual residents, Hindu Undivided Families (HUFs), charitable institutions, universities, and eligible trusts.

Non-resident Indians (NRIs) are not eligible

Investor interested in earning **risk free return**

Investor who wishes to receive **regular income and are seeking capital preservation**

Investor willing to **lock his / her capital for long term i.e. 7 years**

Bottom Line:

The RBI Floating Rate Savings Bond stands as a secure government-backed savings instrument, free from credit risk, assuring the protection of your invested capital. With its **current attractive interest rate of 8.05%**, it emerges as an alluring investment prospect for Indian investors. Furthermore, these bonds deliver periodic interest payments on a semi-annual basis, offering a dependable source of income. As such, they make a valuable addition to a diversified investment portfolio, particularly for those investors who prioritize capital preservation and a consistent income stream.

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