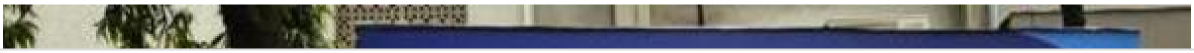

From May 1, large SBI savings accounts will fetch an interest rate of 3.25% per annum

SBI's new rule on savings accounts, short-term loans from today: 5 points

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SBI will link interest rate on large savings account deposits to RBI's repo rate from May 1

Interest rate on SBI's short-term loans like cash credit and overdraft facilities will also be linked to the repo rate

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From May 1, India's largest bank State Bank of India (SBI) has moved to a new interest rate regime on large savings account deposits as well as short-term loans. In March, SBI had announced that it will link its interest rate on savings account with balance above ₹1 lakh and short-term loans like overdraft and cash credit facility to Reserve Bank of India's (RBI) repo

end-December 2018.

Here are 5 things to know about SBI's new rules on savings accounts and overdraft facility:

1) After back-to-back interest rate cuts by the RBI in February and April, repo rate currently stands at 6%. On savings accounts with deposits above ₹1 lakh, SBI will be offering interest rate of 275 bps below repo rate from May 1. This means effective rate will be 3.25% per annum. Currently, SBI offers interest rate of 3.5% on savings account deposits of up to ₹1 crore and 4% on deposits above ₹1 crore.

2) SBI savings accounts with balances up to ₹1 lakh will continue to fetch interest rate of 3.50% per annum. This comprises about 95% of total SBI savings account holders.

3) Also, from May 1, SBI will link short-term loans such as cash credit accounts and overdrafts with limits above ₹1 lakh to the repo rate for better transmission of RBI's policy rates.

4) All cash credit accounts and overdrafts with limits above ₹1 lakh will also be linked to the benchmark policy rate, plus a spread of 2.25%—amounting to 8.25%.

5) SBI will charge a risk premium on these loans, over and above the floor rate of 8.25%, based on the risk profile of the borrower, similar to the current practice.

Analysts are positive about the impact of SBI's move to introduce a rate mechanism that is transparent and that can be quickly transmitted when there is a regulatory change. "A variable interest rate on assets and liabilities is in the best interest of a bank as it could reduce NIM (net interest margin) volatility," Kotak Institutional Equities said in a note earlier.

Earlier, in December 2018, the RBI had in proposed that floating interest rates on personal, home, auto and micro and small enterprises (MSEs) loans should be linked to external benchmarks like repo rate or treasury yields, from April 1, 2019. However, RBI later deferred the deadline saying it will hold further discussions with banks on linking interest rates.

On April 9, SBI had reduced its MCLR by 5 bps across all tenors, with 1-year MCLR coming down from 8.55% per annum to 8.50%.