7.15% RBI Floating Rate (Taxable) Bonds

The Floating Rate Savings Bonds 2020 (Taxable), popularly known as the RBI 7.15% Bonds, currently offer a 7.15 per cent taxable rate of interest over a tenure of seven years. They have replaced the Government of India's 7.75% (taxable) bonds - informally called RBI 7.75% bonds. They are called floating-rate bonds as the interest rate on these bonds is reset every six months starting from January 01, 2021 and is always set at a spread of 35 basis points over the prevailing NSC (National Saving Certificate) rate.

Features of Floating Rate Savings Bonds

- **Eligibility:** (i) Resident Individual, and (ii) HUF
- **Entry age:** There is no minimum entry age. In the case of minors, the floating rate bonds can be purchased by parents/legal guardians.
- **Investments:** Minimum-Rs 1,000. Maximum-No limit.
- **Interest:** 7.15 per cent (interest paid at half-yearly intervals on Jan 01 and July 01 every year. There is no option to pay interest on a cumulative basis).
- **Tenure:** Seven years
- **Account-holding categories:** (i) Individual, (ii) Joint, and (iii) Minor through a guardian.
- **Nomination:** Facility is available.
- **Exit option:** There is no exit option from these bonds before maturity, except for senior citizens.

Investment objectives and risks

To provide savers with an assured rate of interest over the medium term. Savers in floating rate bonds are not fully protected from inflation.

Capital and inflation protection

Your capital in floating rate bonds is fully protected. However, there is no inflation protection, which means whenever inflation is above the latest interest rate, the deposit earns no real returns. However, when the inflation is below the current interest rate, it does manage a positive real rate of return.

Guarantees
The interest rate on floating-rate bonds is currently 7.15 per cent (subject to semi-annual reset) for a tenure of seven years.

Liquidity
These bonds are not listed and traded and you cannot take loans against them. You are effectively locked in for a tenure of seven years. However, pre-mature encashment is allowed with a penalty for senior citizens after a minimum lock-in period, which varies from four to six years depending on the age bracket in which the senior citizen falls.

For an individual in the age bracket of 60-70 years, the lock-in period is six years. If the investor is in the age bracket of 70-80, it is five years and four years if his age is 80 or more.

Exit option
You can only exit from floating-rate bonds after their maturity at the end of seven years.

Tax implications
The interest on these bonds is fully taxable. There is no deduction on the principal investment.