भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2011-12/568
DBOD.BP.BC.No. 106/ 21.04.172 /2011-12 **May 18, 2012**

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Bank Finance to NBFCs Predominantly Engaged in lending against Gold

Please refer to paragraphs 94 to 96 (extract enclosed) of the Monetary Policy Statement 2012-13 announced on April 17, 2012 on 'Bank Finance to NBFCs Predominantly Engaged in Lending against Gold'

2. The extant regulatory framework for bank exposure to NBFCs is prescribed in circular DBOD.No.FSD.BC.46/24.01.028/2006-07 dated December 12, 2006 titled "Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them".

3. NBFCs which are predominantly engaged in lending against collateral of gold jewellery (i.e. such loans comprising 50 per cent or more of their financial assets) have recorded significant growth in recent years, both in terms of their balance sheet size and physical presence. In view of regulatory concerns arising out of the rapid pace of business growth and concentration risk inherent in their business model, certain prudential measures like limiting Loan to Value (LTV) Ratio, increasing the minimum Tier I Capital requirement, prohibition on granting loans against bullion / primary gold and gold coins and other operational guidelines have been prescribed for NBFCs.

4. The rapid expansion of NBFCs predominantly engaged in lending against the collateral of gold jewellery has led to their increased dependence on public funds, including bank finance. In order to supplement the prudential norms prescribed for NBFCs as indicated in paragraph 3 above, banks are advised to:

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(i) reduce their regulatory exposure ceiling on a single NBFC, having gold loans to the extent of 50 per cent or more of its total financial assets, from the existing 10 per cent to 7.5 per cent of banks' capital funds. However, the above exposure ceiling may go up by 5 per cent, *i.e.,* up to 12.5 per cent of banks' capital funds if the additional exposure is on account of funds on-lent by NBFCs to the infrastructure sector. Banks which are currently having exposure to such NBFCs in excess of the above regulatory ceiling would be required to reduce their exposure within the prescribed limit at the earliest, but not later than six months from the date of this circular; and

(ii) have an internal sub-limit on their aggregate exposures to all such NBFCs, having gold loans to the extent of 50 per cent or more of their total financial assets, taken together. The sub-limits should be within the internal limit fixed by the banks for their aggregate exposure to all NBFCs put together.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge

Extract from Monetary Policy Statement 2012-13 announced on April 17, 2012.

Part B. Developmental and Regulatory Policies

IV. Regulatory and Supervisory Measures for Commercial Banks

Bank Finance to NBFCs Predominantly Engaged in Lending against Gold

94. NBFCs that are predominantly engaged in lending against collateral of gold jewellery have recorded significant growth in recent years, both in terms of their balance sheet size and physical presence. Certain prudential measures have been taken on account of regulatory concerns, given the rapid pace of their business growth and the nature of their business model which has inherent concentration risk. The measures include a loan-to-value (LTV) ratio not exceeding 60 per cent for loans against collateral of gold jewellery and a minimum Tier 1 capital of 12 per cent by April 1, 2014. It has also been stipulated that NBFCs should not grant any advance against bullion/primary gold and gold coins.

95. The rapid expansion of such NBFCs has led to their increased dependence on public funds, including bank finance. To supplement the prudential measures mentioned above, it is proposed that:

- banks should reduce their regulatory exposure ceiling in a single NBFC, having gold loans to the extent of 50 per cent or more of its total financial assets, from the existing 10 per cent to 7.5 per cent of bank's capital funds. However, exposure ceiling may go up by 5 per cent, *i.e.*, up to 12.5 per cent of bank's capital funds if the additional exposure is on account of funds on-lent by NBFCs to the infrastructure sector; and
- banks should have an internal sub-limit on their aggregate exposure to all such NBFCs, having gold loans to the extent of 50 per cent or more of their total financial assets, taken together.

96. Detailed guidelines in this regard will be issued separately.