



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

RBI / 2013-14/435

DNBS.CC.PD.No. 365/03.10.01/2013-14

January 08, 2014

To  
All NBFCs (excluding PDs)  
Dear Sirs,

### **Lending Against Security of Single Product – Gold Jewellery**

Please refer to [circular DNBS.CC.PD.No.356/03.10.01/2013-14 dated September 16, 2013](#) ('the circular') issued in line with the recommendations of the Working Group to Study the Issues Related to Gold Imports and Gold Loan NBFCs in India (K U B Rao Working Group). Reference is also drawn to [circular DNBS.CC.PD.No.265/03.10.01/2011-12 dated March 21, 2012](#) wherein NBFCs were required to maintain a Loan-to-Value (LTV) Ratio not exceeding 60 percent for loans granted against the collateral of gold jewellery.

2. We have received certain representations from NBFCs in the matter. These have been examined and it has been decided as under:

#### **i) Loan-To-Value (LTV) Ratio**

In terms of para 2.1 of circular DNBS.CC.PD.No.265/03.10.01/2011-12 dated March 21, 2012, NBFCs were required to maintain LTV ratio not exceeding 60 percent for loans granted against the collateral of gold jewellery. It may be recalled that to facilitate monetising of idle gold as far as possible through the organised sector, the KUB Rao Working Group had recommended that the LTV ratio may be increased from 60 percent to 75 percent once the business levels of the gold loan NBFCs come to a level considered appropriate. The Working Group had also recommended standardisation of the methodology of determining the value of gold. In view of the moderation in the growth of gold loan portfolios of NBFCs in the recent past, and also taking into consideration the experience so far, it has been decided to raise the

LTV ratio to upto 75 percent for loans against the collateral of gold jewellery from the present limit of 60 percent with immediate effect.

In this context, it is understood that some NBFCs are adding making charges etc. to the value of the gold jewellery determined in terms of paragraph 2(iii) of 'the circular'. It is clarified that the value of the jewellery for the purpose of determining the maximum permissible loan amount will be only the intrinsic value of the gold content therein and no other cost elements should be added thereto. The intrinsic value will continue to be arrived at as detailed in 'the circular'.

## **ii) Standardization of Value of Gold in arriving at LTV Ratio**

As per para 2 (iii) of 'the circular', NBFCs were required to give in writing to the borrower the purity (in terms of carats) and weight of gold. NBFCs have raised apprehensions on certifying the purity of the gold jewellery accepted as collateral on grounds that under the current practices it was possible only to arrive at the proximate purity of the gold and that such a certification could lead to dispute with the borrowers. It is clarified that the need to give a certificate on the purity of gold cannot be dispensed with. The certified purity shall be applied for determining the maximum permissible loan and the reserve price for auction. The NBFCs can, however, include suitable caveats to protect themselves against disputes on redemption.

## **iii) Verification of the Ownership of Gold**

In terms of para 2. iv of 'the circular', NBFCs were required to keep a record of verification of ownership of the jewellery where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams. Also the method of establishing ownership should be laid down in the overall loan policy of the NBFC approved by its Board. In view of the fact that it may not be possible for borrowers to produce receipts establishing ownership, especially when the jewellery has been inherited, it is clarified that the ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document may be prepared to explain how the ownership was determined, particularly in each and every case where the gold jewellery pledged by a borrower

at any one time or cumulatively on loan outstanding is more than 20 grams. NBFCs are directed to have an explicit policy in this regard in their overall loan policy.

**iv) Auction Process and Procedures**

In terms of para 2. v of 'the circular', NBFCs were directed to conduct the auction in the same town or taluk in which the branch that had extended the loan is located. Representations have been received seeking permission to conduct auction in the district rather than the taluk. It has not been found feasible to accept this request and as such the current instructions remain unchanged.

**v) Other Instructions**

In terms of para 2. vi (ii) of 'the circular', NBFCs were directed to disburse high value loans of ₹ one lakh and above, only through cheque. NBFCs had represented that payment by issue of cheques would lead to delay in the borrower getting access to the funds and the delays could be accentuated where disbursements happen during weekends. It is observed that a majority of the loans in the portfolio of NBFCs is below ₹ one lakh. It has therefore been decided to retain the current instructions in this regard.

3. Please find enclosed Notifications amending the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 contained in Notification No. DNBS.192/DG(VL)-2007 dated February 22, 2007 and the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, contained in Notification No. DNBS.193/DG(VL)-2007 dated February 22, 2007 for meticulous compliance.

Yours faithfully,

(N.S.Vishwanathan)  
Principal Chief General Manager

**RESERVE BANK OF INDIA  
DEPARTMENT OF NON-BANKING SUPERVISION  
CENTRAL OFFICE  
CENTRE I, WORLD TRADE CENTRE  
CUFFE PARADE, COLABA  
MUMBAI 400 005**

**NOTIFICATION No.DNBS(PD).269/PCGM (NSV)-2014    dated January 08, 2014**

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (hereinafter referred to as the said Directions), contained in Notification No. DNBS.192/DG(VL)-2007 dated February 22, 2007, in exercise of the powers conferred by Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

**2.     Sub clause (i) of clause (a) of Paragraph 17A shall be replaced with the following-**

“(i)     maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery”;

Provided that the value of gold jewellery for the purpose of determining the maximum permissible loan amount shall be the intrinsic value of the gold content therein and no other cost elements shall be added thereto. The intrinsic value of the gold jewellery shall be arrived at as detailed in paragraph 17C(1) of the Directions.”

**3.     The last sentence in Paragraph (17B) shall be replaced with the following -**

“The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document may be prepared to explain how the

ownership was determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams. NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.”

**4. The following shall be inserted in the clause (iii) of sub-para (1) of Paragraph 17 C, after the last sentence**

“NBFCs may have suitable caveats to protect themselves against disputes during redemption, but the certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.”

**(N.S.Vishwanathan)**  
Principal Chief General Manager

Withdrawn

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**(N.S.Vishwanathan)**

Principal Chief General Manager

Withdrawn