

1. Loans against security of single product - Gold Jewellery

1) All NBFCs shall :

(i) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 percent 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 3 below.

(ii) disclose in their balance sheet the percentage of such loans to their total assets.

2) NBFCs shall not grant any advance against bullion/ primary gold and gold coins. The NBFCs shall not grant any advance for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Exchange Traded Funds (ETF) and units of gold mutual fund.

2. Verification of the Ownership of Gold

1) Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been 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.

2) NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.

3. Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio The gold jewellery accepted as collateral by the NBFC shall be valued by the following method:

- 1) The gold jewellery accepted as collateral by the NBFC shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission.
- 2) If the purity of the gold is less than 22 carats, the NBFC shall convert the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.
- 3) NBFC, while accepting gold as collateral, shall give a certificate to the borrower on their letterhead, of having assayed the gold and state the purity (in terms of carats) and the weight of the gold pledged.
- 4) 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.

4. Auction

- 1) The auction shall be conducted in the same town or taluka in which the branch that has extended the loan is located. NBFCs can however pool gold jewellery from different branches in a district and auction it at any location within the district, subject to meeting the following conditions: (i) The first auction has failed. (ii) The NBFC shall ensure that all other requirements of the extant directions regarding auction (prior notice, reserve price, arms-length relationship, disclosures, etc.) are met. Non-adherence to the above conditions will attract strict enforcement action.
- 2) While auctioning the gold the NBFC must declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments shall not be less than 85 percent of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission and value of the jewellery of lower purity in terms of carats shall be proportionately reduced.

3) It shall be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding shall be payable to the borrower.

4) NBFCs shall disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.

5. Safety and security measures to be followed by NBFCs lending against collateral of gold jewellery

1) NBFCs, which are in the business of lending against collateral of gold jewellery, shall ensure that necessary infrastructure and facilities are put in place, including safe deposit vault and appropriate security measures for operating the vault, in each of its branches where gold jewellery is accepted as collateral. This is required to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

2) No new branch/es shall be opened without suitable arrangements for security and for storage of gold jewellery, including safe deposit vault.