

November 26, 2007

The Chief Executive Officer of
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Gold Loan Payment- UCBs

Please refer to paragraphs 2.2.8 and 2.1.3 of the Master Circular UBD.PCB.MC.No.10 /09.14.000/2006-07 dated July 4, 2007 on Income Recognition, Asset Classification, Provisioning & Other Related Matters.

2. We have received representations from banks and their federations to permit bullet repayment of gold loans, especially to the small borrowers. The matter was examined and it has been decided to permit bullet repayment of gold loans up to Rs 1.00 lakh as an additional option. UCBs are, therefore, permitted to lay down policies with the approval of their Board for sanction of gold loan with bullet repayment option subject to the following guidelines:

- (i) The amount of gold loan sanctioned should not exceed Rs 1.00 lakh at any point of time.
- (ii) The period of the loan shall not exceed 12 months from the date of sanction.
- (iii) Interest will be charged to the account at monthly rests but will become due for payment along with principal only at the end of 12 months from the date of sanction.
- (iv) The bank should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold /gold ornaments), expected price fluctuations, interest that will accrue during the tenure of the loan etc.
- (v) Such loans shall be governed by the extant income recognition, asset classification and provisioning norms which shall be applicable once the principal and interest become overdue.
- (vi) The account would also be classified as NPA (sub standard category) even before the due date of repayment, if the prescribed margin is not maintained.

3. It is clarified that crop loans sanctioned against the collateral security of gold/gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.

Yours faithfully,

(A.K Khound)
Chief General Manager