

RBI/2008/275
UBD.PCB.Cir.No. 24/ 13.05.001/ 08-09

November 10, 2008

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

Dear Sir/Madam,

Advances against pledge of Gold / Silver Ornaments

Please refer to UBD.PCB. Cir. No. 34 & 22 /13.05.000/07-08 dated March 2, 2006 and November 26, 2007 respectively. It was observed that some Urban Cooperative Banks were granting advances against the pledge of Gold / Silver without exercising due care in the sanction of such loans. In order to mitigate the inherent risks attached to sanction of loans and advances against Gold / Silver ornaments, Urban Cooperative Banks are advised to observe the safeguards as detailed in the Annex.

2. Please acknowledge receipt to the regional office concerned.

Yours faithfully,

(A.K Khound)
Chief General Manager-in-Charge.

ANNEX
Gold Loans : safeguards

1. Ownership of Ornaments

It is advisable that the advances are made to persons properly introduced to the bank. The bank should satisfy itself about the ownership of the gold ornaments etc. before accepting them for pledge. The bank should obtain a declaration from the borrower that the ornaments are his own property and that he has the fullest right to pledge them to the bank. Taking of ornaments for pledge and release thereof to the parties concerned after repayment of the bank's dues should be done strictly in the authorised official's room to avoid any risk.

2. Appraiser

The bank should appoint an approved jeweller or shroff as an appraiser for valuation of the gold ornaments proposed to be pledged to the bank and obtain adequate security from him in the form of cash and indemnity bond. Valuation and appraisal of the ornaments in the bank's premises itself would be ideal but when these are not possible, the bank should take suitable precautions against their loss while in transit. The bank should send the ornaments to the appraiser in a locked box, one key of which should be kept with the appraiser and the other with the bank. The box should be sent through a responsible member of the staff along with the prospective borrower. The placing of ornaments in the box at both the ends should be done in the presence of the employee carrying the ornaments to the appraiser and the borrower. The bank should take a suitable insurance cover for loss of the ornaments while in transit.

3. Valuation Report

The valuation certificate of the appraiser should clearly indicate the description of the ornaments, their finess, the gross weight of the ornaments, net weight of the gold content exclusive of stones, lac, alloy, strings, fastenings and the value of the gold at the prevailing market price. The valuation report should be duly signed by the appraiser which should be kept along with the loan documents by the bank.

4. Record of Security

The full name of the borrower, his residential address, date of advance, amount and description of the ornaments in detail should be recorded in the gold ornaments register which should be checked and initialled by the Manager.

5. Custody of Ornaments

The ornaments belonging to each borrower(or articles of each loan) together with a list indicating the description of ornaments, gold loan account number , name of party, etc. should be kept separately in small cloth bags. A tag indicating loan account number and name of the party should be tied to the bag to facilitate identification. The bags should be arranged in trays according to loan account numbers and kept in the strong room or fire proof safes under joint custody.

6. Period

The period of advance against gold ornaments should be generally restricted to 6 months or 1 year.

7. Margin

Adequate margin on the market value should be maintained. The bank should collect interest on advances promptly. In no circumstances should it allow to water down the margin by debiting the interest accrued to the loan account.

8. Return of Ornaments

On repayment of the loan together with the interest payable in the account, the ornaments should be returned to the borrower and his receipt obtained in token of having received the ornaments.

9. Part Release

While allowing part release of the ornaments against part repayment of the loan, care should be taken to ensure that the value of the left-over ornaments is sufficient to cover the outstanding balance with the margin prescribed in the account.

10. Delivery to third Parties

When the ornaments are delivered to third parties, a letter of authority from the borrower and subsequent confirmation of the borrower should be obtained. The letter of authority should contain an undertaking by the borrower, absolving the bank of any responsibility in the event of dispute or loss arising from the delivery of the ornaments to the party named therein. The receipt of the third party should be obtained on the letter of authority as well as in the gold loan ledger.

11. Default

When the borrower fails to repay the loan on the due date, a notice calling upon him to repay the loan within a specified time should be given and if no response is received, a reminder should be sent by registered post informing the borrower that the ornaments would be auctioned and after adjusting the sale proceeds against the outstanding dues to the bank, the balance, if any, would be paid to the borrower against his receipt.

12. Re-pledge of Ornaments

It is not advisable for UCBs to make advances against repledge of ornaments as this facility is likely to be misused for financing moneylenders, which is not a desirable activity.

13. Insurance

The jewels pledged to the bank should be insured for the appraised value against the risk of burglary. If banks store the pledged jewels in fire-proof strong rooms, insuring them against fire may not be necessary. Banks may take blanket insurance policy covering cash, jewels and other valuables and also covering all types of risks.

14. Verification

Surprise verification of the packets containing gold/silver ornaments by an officer other than the joint custodian be undertaken and should be recorded in a separate register with necessary details.