



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-14/551

DBOD.No.IBD.BC.104/23.67.001/2013-14

April 2, 2014

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir / Madam

Gold (Metal) Loans (GMLs)

Please refer to our [circular DBOD.No.IBD.BC.33/23.67.001/2005-06 dated September 5, 2005](#) and [circular DBOD.No.IBD.BC.71/23.67.001/2006-07 dated April 3, 2007](#) wherein banks had been advised to ensure the end use of gold loans and also to lay down appropriate risk management and lending policy to obviate the possibility of frauds in this area.

2. It has come to our notice that some GML providing banks are extending Gold Metal Loans mainly relying on stand-by LC/BG issued by other banks, without carrying out detailed credit appraisal. If the sales proceeds are not routed through GML providing banks, they are not able to monitor end use of the gold lent. Further, banks issuing stand-by LC/BG often do not carry out proper credit appraisal of the borrowers. Lack of proper monitoring mechanism and not ensuring end use of GML has resulted in certain instances of frauds/ misuse related to GML by certain unscrupulous jewellers. In order to mitigate the risk of frauds/misuse of the scheme by the GML borrowers, it is advised that the stand-by LC/BG issuing bank and the GML providing banks should keep the following additional guidelines in view:

- i. Stand-by LC/BG issuing bank should carry out rigorous credit appraisal exercise and treat stand-by LC/BG limit (Non-fund based limit) at par with the fund based limit. Similarly, bank disbursing GML should carry out independent credit appraisal of the borrower. It should not rely solely on stand-by LC/BG issued by other banks.

- ii. Stand-by LC/BG issuing bank and bank disbursing GML while assessing the credit requirement of the borrower may, among others, take into account the following aspects:
 - a. Track record of the borrower,
 - b. Trade cycle of the manufacturing activity,
 - c. Credit worthiness of the borrower,
 - d. Collateral security offered by the borrower, etc.
- iii. The manufacturer of the gold jewellery availing GML, irrespective of whether through stand-by LC/BG issued by another bank or directly from a nominated bank, should have good credentials and standing in the market. This should be established by inputs from the market as well as from other sources including from the Credit Information Companies.
- iv. In the case of GML against revolving stand-by LC/BG, i.e., where the original loan limit is restored after repayment of previous loan without any further reference to the stand-by LC/BG issuing bank, both the banks, i.e., GML providing bank and the stand-by LC/BG issuing bank may evolve a mechanism to carefully monitor the borrowing arrangement. In such cases GML providing bank may seek confirmation of stand-by LC/BG issuing bank before restoring the loan limit. Existing guidelines in respect of verifying the genuineness of the guarantee with the issuing bank as provided in the Master Circular on Guarantees and Co-acceptances ([DBOD.No.Dir.BC.12/13.03.00/2013-14 dated July 1, 2013](#)) may be followed by the banks in this regard.
- v. Bank disbursing GML should open current account of the borrower with the consent of stand-by LC/BG issuing bank so that funds can be arranged by the borrower in the account for monthly servicing of interest and repayment of loan on due date.
- vi. The GML providing bank may obtain all relevant information from the borrower viz., daily sales/stock position, deposit of sales proceeds etc., at stipulated intervals and there should be proper sharing of the above information between GML providing bank and stand-by LC/BG issuing bank.
- vii. Inspection of stocks, quality check of the gold stock, verification of insurance cover, etc, may be undertaken jointly or on rotation basis by the GML providing bank and stand-by LC/BG issuing bank.

- viii. In case GML is given by the nominated bank to its own existing customers, gold metal loans under the scheme may be carved out within the credit limit sanctioned by the bank. In case of new borrowers, the gold metal loan limit may be fixed after carrying out a detailed credit appraisal and due diligence.
- ix. GML can be availed of only by gold jewellers who are themselves manufacturers of gold jewellery. The jewellers cannot sell the gold borrowed under GML scheme to any other party for manufacture of jewellery.
3. Banks may adopt a suitable Board approved policy in this regard keeping in view the above guidelines and the regulations issued by the Foreign Exchange Department, of the RBI related to import of gold.
4. These instructions will come into force with immediate effect.

Yours faithfully

(Rajesh Verma)
Chief General Manager