



## **Annex II – Lending against collateral of Gold Jewellery**

While lending to individuals against collateral of gold jewellery, NBFCs shall adopt the following in addition to the general guidelines as above.

1) They shall put in place Board approved policy for lending against gold that shall inter alia, cover the following:

- (i) Adequate steps to ensure that the KYC guidelines stipulated by the Reserve Bank are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,
- (ii) Proper assaying procedure for the jewellery received,
- (iii) Internal systems to satisfy ownership of the gold jewellery,
- (iv) Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewellery,
- (v) The jewellery accepted as collateral shall be appropriately insured,
- (vi) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,
- (vii) The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper,
- (viii) As a policy, the NBFCs themselves shall not participate in the auctions held,
- (ix) Gold pledged shall be auctioned only through auctioneers approved by the Board,
- (x) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilisation, execution and approval.

2) The loan agreement shall also disclose details regarding auction procedure.

3) Other Instructions:



- (i) NBFCs financing against the collateral of gold must insist on a copy of the PAN Card of the borrower for all transaction above ₹5 lakh.
- (ii) Documentation across all branches must be standardized.
- (iii) NBFCs shall not issue misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes.