

Loans Against Gold and Silver Collateral

A. Loan to Value Ratio

1.Loans (including bullet repayment loans) sanctioned by banks against pledge of gold ornaments and jewellery for non-agricultural purposes should not exceed 75 per cent of the value of gold ornaments and jewellery. Further, LTV of 75 per cent shall be maintained throughout the tenure of the loan for all loans extended against pledge of gold ornaments and jewellery for non-agricultural end uses. The LTV ratio shall be computed against the total outstanding in the account, including accrued interest, and current value of gold jewellery accepted as security/ collateral, determined as given below.

2. In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and jewellery accepted as security / collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as 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 on a consistent manner as per their Board approved policy. If the gold is of purity less than 22 carats, the bank should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

B. Loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes, where both interest and principal are due for payment at maturity of the loan will be subject to the following conditions :

1. The amount of gold loan sanctioned should not exceed Rs. 2.00 lakh at any point of time which may be granted against the pledge of gold jewellery and ornaments for non-agricultural end uses.
2. The tenor of the loans shall not exceed 12 months from the date of sanction.
3. Interest will be charged to the account at monthly rests and may be recognised on accrual basis provided the account is classified as 'standard' account. This will also apply to existing loans.

4. Such loans shall be governed by extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

C. Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Therefore, banks would find granting of advances against the security of such hallmarked jewellery safer and easier. Preferential treatment of hallmarked jewellery is likely to encourage practice of hallmarking which will be in the long-term interest of consumer, lenders and the industry. Therefore, banks while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.