

Lending Against Gold and Silver Collateral –

A. Advances against pledge of Gold / Silver Ornaments

1. In order to mitigate the inherent risks attached to sanction of loans and advances against gold / silver ornaments, UCBs are advised to observe the safeguards as detailed below:

1) Safeguards to be observed Advances against Pledge of Gold / Silver Ornaments

i) Ownership of Ornaments

It is advisable that the advances are made to persons properly introduced to the UCB. The UCB should satisfy itself about the ownership of the gold ornaments etc. before accepting them for pledge. The UCB 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 UCB. 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.

ii) Appraiser

The UCB should appoint an approved jeweller or shroff as an appraiser for valuation of the gold ornaments proposed to be pledged to the UCB 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 UCB should take suitable precautions against their loss while in transit. The UCB 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 UCB. 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 UCB should take a suitable insurance cover for loss of the ornaments while in transit.

iii) Valuation Report

The valuation certificate of the appraiser should clearly indicate the description of the ornaments, their fitness, 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 and kept along with the loan documents by the UCB.

In order to standardize the valuation and make it more transparent to the borrower, it has been decided that gold 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)]. In terms of circular DCBR.BPD. (PCB/RCB). Cir. No. 3/13.05.001/2015-16 dated October 15, 2015, UCBs may also use the historical spot gold price data of the preceding 30 days publicly disseminated by a Commodity Exchange regulated by the Securities and Exchange Board of India. If the gold is of purity less than 22 carats, the UCB 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

iv) 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 / initialled by the Manager.

v) 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.

vi) Period

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

vii) Margin

As a prudential measure, Loan to Value (LTV) Ratio of not exceeding 75% is applicable for UCBs' lending against gold jewellery (including bullet repayment loans against pledge of gold jewellery). The UCB 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.

Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. UCBs 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 consumers, lenders and the industry. Therefore, UCBs 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.

viii) 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.

ix) 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 outstanding balance with the margin prescribed in the account.

x) 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 UCB 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.

xi) 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 UCB, the balance, if any, would be paid to the borrower against his receipt.

xii) Re-pledge of Ornaments

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

xiii) Insurance

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

xiv) 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.

2. Bullet Repayment

1) With effect from October 30, 2014 the quantum of loans against gold ornaments that could be granted under the bullet repayment scheme with the approval of their bank's Board has been enhanced from ₹1 lakh to ₹2 lakh subject to the following guidelines:

- i) The amount of loan sanctioned should not exceed ₹2 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) UCBs should maintain a Loan to Value (LTV) ratio of 75% on the outstanding amount of loan including the interest on an ongoing basis, failing which the loan will be treated as Non Performing Asset (NPA).
- 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.

2) With a view to providing incentives to UCBs meeting PSL targets, with effect from October 6, 2023, the monetary ceiling of gold loans that can be granted under the bullet repayment scheme, has been increased from ₹2.00 lakh to ₹4.00 lakh for those UCBs who have met the overall PSL target and sub targets as on March 31, 2023 and continue to meet the targets and sub-targets as prescribed at para 7.2 of [Master Directions - Reserve Bank of India \(Priority Sector Lending – Targets and Classification\) Directions, 2025 dated March 24, 2025](#), as amended from time to time. All other provisions of the scheme remain unchanged.

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

4. UCBs are not permitted to grant any advance for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.