

RBI/2013-14/260

DNBS.CC.PD.No.356 /03.10.01/2013-14

September 16, 2013

To
All NBFCs (excluding PDs)

Dear Sir,

Lending Against Security of Single Product – Gold Jewellery

It may be recalled that in the light of the spike in gold imports in the recent years and the potential threat this could pose to external stability of the country, the *Working Group to Study the Issues Related to Gold Imports and Gold Loans NBFCs in India* (WG) was set up by the Reserve Bank, under the Chairmanship of Shri K.U.B.Rao. The WG which submitted its report in January 2013, has made a number of recommendations, including some relating to NBFCs that are lending against the collateral of gold jewellery.

2. The recommendations of the WG, in so far as they relate to NBFCs lending against the collateral of gold jewellery, have been broadly accepted by the Bank and it has been decided to issue guidelines as outlined below.

i. Appropriate Infrastructure for Storage of Gold Ornaments

It has been observed that branches of some NBFCs which are predominantly into lending (50% or more of the total financial assets) against gold jewellery lack the amenities for storage of the gold ornaments taken as collateral and often these have to be moved to larger branches where safe deposit vaults exist. This endangers the safety of the gold. It is therefore important that a minimum level of physical infrastructure and facilities is available in each of the branches engaged in financing against gold jewellery including a safe deposit vault and appropriate security measures for operating the vault to ensure safety of the gold and borrower convenience. Existing NBFCs should review

the arrangements in place at their branches and ensure that necessary infrastructure is put in place at the earliest. No new branches should be opened without suitable storage arrangements having been made thereat. Applicants seeking registration as NBFCs from the Reserve Bank and which have a business plan to engage primarily in lending against the collateral of gold ornaments (such loans comprising 50 percent or more of their financial assets) will also have to ensure at the stage of submission of application for CoR that they have a proper infrastructure for storage and security at all places/branches of the company. No business of grant of loans against the security of gold can be transacted at places where there are no proper facilities for storage/security.

ii. Prior approval of RBI for Opening Branches in Excess of 1000 in Number

It is observed that the NBFCs extending loans against gold jewellery have been expanding at a very rapid pace, both in terms of their balance sheet and branches, often at the cost of internal controls. Unbridled growth may not be in the overall interests of the concerned NBFC or the sector and there is a need for consolidation of the existing network. Consequently, it is henceforth mandatory for NBFC to obtain prior approval of the Reserve Bank to open branches exceeding 1000. However NBFCs which already have more than 1000 branches may approach the Bank for prior approval for any further branch expansion. Besides, no new branches will be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.

iii. Standardization of Value of Gold in arriving at LTV Ratio

Currently, there is no standard method for arriving at the value of gold accepted as collateral and valuation is arbitrary and opaque. In order to standardize the valuation and make it more transparent to the borrower, it has been decided that gold jewellery accepted as 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 Bombay Bullion Association Ltd. (BBA). While accepting the gold as collateral, the NBFC should give in writing to the borrower, on their letter head giving the purity (in terms of carats) and weight of the gold. If the gold is of purity less than 22 carats, the NBFC should translate the collateral

into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately. It is reiterated that the LTV Ratio for loans against jewellery continues to be at 60%.

iv. Verification of the Ownership of Gold

A reference is invited to [DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26, 2012](#), in which the Reserve Bank has laid down certain fair practices to be adopted by NBFCs lending against the collateral of gold. It was stipulated, *inter alia*, that NBFCs should have Board approved policies in place to satisfy ownership of the gold jewellery and adequate steps be taken to ensure that the KYC guidelines stipulated by the Reserve Bank are followed and due diligence of the customer undertaken. In this regard, it has been decided that where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs must keep record of the verification of the ownership of the jewellery. The method of establishing ownership should be laid down as a Board approved policy.

v. Auction Process and Procedures

Reference is again invited to DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26, 2012 by which NBFCs were directed *inter alia* to have Board approved policies on auction of gold jewellery that are transparent to the borrower and adequate prior notice has been issued to her/him. The following additional stipulations are made with respect to auctioning of pledged gold jewellery:

- a. The auction should be conducted in the same town or taluka in which the branch that has extended the loan is located.
- b. While auctioning the gold the NBFC should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85% of the previous 30 day average closing price of 22 carat gold as declared by The Bombay Bullion Association Ltd. (BBA) and value of the jewellery of lower purity in terms of carats should be proportionately reduced.

c. It will be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding should be payable to the borrower.

d. NBFCs must disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.

vi. 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 lakhs.
 - ii. High value loans of ₹ **one lakh** and above must only be disbursed by cheque.
 - iii. Documentation across all branches must be standardized.
 - iv. NBFCs shall not issue misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes.
3. Please find enclosed Notifications amending the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 contained in Notification No. DNBS.192/DG(VL)-2007 dated February 22, 2007 and the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, contained in Notification No. DNBS.193/DG(VL)-2007 dated February 22, 2007 for meticulous compliance. Modifications to Acceptance of Public Deposits Directions contained in "Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998" will follow.

Yours faithfully,

(N.S.Vishwanathan)
Principal Chief General Manager

**RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA
MUMBAI 400 005**

NOTIFICATION No. DNBS(PD).263 /CGM (NSV)-2013 dated September 16 , 2013

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (hereinafter referred to as the said Directions), contained in Notification No. DNBS.192/DG(VL)-2007 dated February 22, 2007, in exercise of the powers conferred by Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

2. The following Paragraph (17B) shall be inserted after Paragraph 17A -

“Verification of the Ownership of Gold

17B It was stipulated *inter alia* that NBFCs should have Board approved policies in place to confirm and satisfy ownership of the gold jewellery and that adequate steps be taken to ensure that the KYC guidelines stipulated by the Reserve Bank are followed to verify adequate due diligence of the customer. In this regard, it has been decided that where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs must keep record of the verification of the ownership of the jewellery. The method of establishing ownership should be laid down as a Board approved policy”.

3. The following Paragraphs (17C (1) and (2)) shall be inserted after Paragraph 17B-

“Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio

17C (1) The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by following method

- i. The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by The Bombay Bullion Association Ltd. (BBA).
- ii. If the gold is of purity less than 22 carats, the NBFC should translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.
- iii. NBFC while accepting the gold as collateral should give a certificate to the borrower on their letterhead, of having assayed the gold and stating the purity (in terms of carats) and the weight.

17 C (2) Auction

- a. The auction should be conducted in the same town or taluka in which the branch that has extended the loan is located.
- b. While auctioning the gold the NBFC should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85% of the previous 30 day average closing price of 22 carat gold as declared by The Bombay Bullion Association Ltd. (BBA) and value of the jewellery of lower purity in terms of carats should be proportionately reduced.
- c. It will be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding should be payable to the borrower.
- d. NBFCs must disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction."

4. The following Paragraph (17D (1) and (2) shall be inserted after the newly inserted Paragraph 17C

"Safety and security measures to be followed by Non-Banking Financial Companies lending against collateral of gold jewellery

17D (1) Non-Banking Financial Companies, which are in the business of lending against collateral of gold jewellery, shall ensure that necessary infrastructure and facilities are put in place, including safe deposit vault and appropriate security measures for operating the vault, in each of its branches where gold jewellery is accepted as collateral. This is to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

17D (2) No new branch/es shall be opened without suitable arrangements for security and for storage of gold jewellery, including safe deposit vault.”

5. The following Paragraph (17E) shall be inserted after the newly inserted Paragraph 17D-

“Opening Branches exceeding one thousand in number

17E It is henceforth mandatory for a Non-Banking Financial Company to obtain prior approval of the Reserve Bank to open branches exceeding 1000. However NBFCs which already have more than 1000 branches may approach the Bank for prior approval for any further branch expansion. Besides, no new branches will be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.”

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