

Standard method to determine value of gold accepted as collateral: RBI

Now, non-banking financial companies (NBFCs) offering loans against gold jewellery would have to follow a standard method to determine the value of gold accepted as collateral, the Reserve Bank of India (RBI) has said.

On Tuesday, the central bank introduced new norms for lending against gold jewellery, following the recommendations of the K U B Rao committee, which studied the issues related to gold imports and gold-loan NBFCs in India. "Currently, there is no standard method for arriving at the value of gold accepted as collateral and the valuation is arbitrary and opaque," RBI said.

It has been decided gold jewellery kept as security must 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 (BBA). If the purity of the jewellery is less than 22 carats, it would have to be valued proportionately. NBFCs would also have to provide borrowers the purity and weight of the gold accepted as collateral in writing.

The loan-to-value ratio for advances against gold jewellery has been kept unchanged at 60 per cent.

RBI also stated NBFCs must create appropriate infrastructure for storage of gold ornaments. "It has been observed branches of some NBFCs that are predominantly into lending (50 per cent or more of the total financial assets) against gold jewellery lack the amenities for storage...This endangers the safety of the gold," it said.

Also, NBFCs should have a basic level of physical infrastructure, including a safe deposit vault and appropriate security measures, in each branch. No new branch can be opened without suitable storage arrangements and NBFCs must review these facilities at existing branches, too.

To open more than 1,000 branches, NBFCs would now need prior approval from RBI. "NBFCs that already have more than 1,000 branches may approach RBI for prior approval for any further branch expansion. Besides, opening any new branch wouldn't be allowed without the facilities for storage of gold jewellery and the minimum security facilities for the pledged gold jewellery," the central bank said.

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