

**Extract of guidelines for Gold (Metal) Loans as per RBI/2015-16 /95 DBR.No.Dir.BC. 10/13.03.00/ 2015-16 Master Circular- Loans and Advances – Statutory and Other Restrictions dated July 1, 2015**

RBI website link for the circular:

[https://rbi.org.in/scripts/BS\\_ViewMasCirculardetails.aspx?id=9902](https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9902)

**2.2.1 Gold (Metal) Loans**

2.2.1.1 Presently, nominated banks (**as per Annex 1**) can extend Gold (Metal) Loans to exporters of jewellery who are customers of other scheduled commercial banks, by accepting stand-by letter of credit or bank guarantee issued by their bankers in favour of the nominated banks subject to authorised banks' own norms for lending and other conditions stipulated by RBI. Banks may also extend the facility to domestic jewellery manufacturers, subject to the following conditions:

- (i) The stand-by LC / BG shall be extended only on behalf of domestic jewellery manufacturers and shall cover at all times the full value of the quantity of gold borrowed by these entities. The stand-by LC / BG shall be issued by scheduled commercial banks in favour of a nominated bank (list appended) only and not to any other entity which may otherwise be having permission to import gold.
- (ii) The bank issuing the stand-by LC / BG (only inland letter of credit / bank guarantee) should do so only after carrying out proper credit appraisal. The bank should ensure that adequate margin is available to it at all times consistent with the volatility of the gold prices.
- (iii) The stand-by LC / BG facilities will be denominated in Indian Rupees and not in foreign currency.

(iv) Stand-by LC / BG issued by the non-nominated banks will be subject to extant capital adequacy and prudential norms.

(v) The banks issuing stand-by LC / BG should also carefully assess the overall risks on granting these facilities and lay down a detailed lending policy with the approval of their Board.

(vi) Stand-by LC/BG issuing bank should carry out rigorous credit appraisal exercise and treat stand-by LC/BG limit (Non-fund based limit) at par with the fund based limit. Similarly, bank disbursing GML should carry out independent credit appraisal of the borrower. It should not rely solely on stand-by LC/BG issued by other banks.

(vii) Stand-by LC/BG issuing bank and bank disbursing GML while assessing the credit requirement of the borrower may, among others, take into account the following aspects:

- a. Track record of the borrower,
- b. Trade cycle of the manufacturing activity,
- c. Credit worthiness of the borrower,
- d. Collateral security offered by the borrower, etc.

(viii) The manufacturer of the gold jewellery availing GML, irrespective of whether through stand-by LC/BG issued by another bank or directly from a nominated bank, should have good credentials and standing in the market. This should be established by inputs from the market as well as from other sources including from the Credit Information Companies.

(ix) In the case of GML against revolving stand-by LC/BG, i.e., where the original loan limit is restored after repayment of previous loan without any further reference to the stand-by LC/BG issuing bank, both the banks, i.e., GML providing bank and the stand-by LC/BG issuing bank may evolve a mechanism to carefully monitor the borrowing arrangement. In such cases GML providing bank may seek confirmation of stand-by LC/BG issuing bank before restoring the loan limit. Existing guidelines in respect of verifying the genuineness of the guarantee with the issuing bank as provided in the Master Circular on Guarantees and Co-acceptances ([DBR. No. Dir. BC.11/13.03.00/2015-16 dated July 1, 2015](#)) may be followed by the banks in this regard.

(x) Bank disbursing GML should open current account of the borrower with the consent of stand-by LC/BG issuing bank so that funds can be arranged by the borrower in the account for monthly servicing of interest and repayment of loan on due date.

(xi) The GML providing bank may obtain all relevant information from the borrower viz., daily sales/stock position, deposit of sales proceeds etc., at stipulated intervals and there should be proper sharing of the above information between GML providing bank and stand-by LC/BG issuing bank.

(xii) Inspection of stocks, quality check of the gold stock, verification of insurance cover, etc, may be undertaken jointly or on rotation basis by the GML providing bank and stand-by LC/BG issuing bank.

(xiii) In case GML is given by the nominated bank to its own existing customers, gold metal loans under the scheme may be carved out within the credit limit sanctioned by the bank. In case of new borrowers, the gold metal loan limit may be fixed after carrying out a detailed credit appraisal and due diligence.

(xiv) GML can be availed of only by gold jewellers who are themselves manufacturers of gold jewellery. The jewellers cannot sell the gold borrowed under GML scheme to any other party for manufacture of jewellery.

2.2.1.2 The nominated banks may continue to extend Gold (Metal) Loans to jewellery exporters subject to the following conditions:

- The exposure assumed by the nominated bank extending the Gold (Metal) Loan against the stand-by LC / BG of another bank will be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per the extant guidelines.

- The transaction should be purely on back-to-back basis i.e. the nominated banks should extend Gold (Metal) Loan directly to the customer of a non-nominated bank, against the stand-by LC / BG issued by the latter.
- Gold (Metal) Loans should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.
- The banks may calculate their exposure and compliance with prudential norms daily by converting into Rupee the gold quantity by crossing London AM fixing for Gold / US Dollar rate with the rupee- dollar reference rate announced by RBI.

23.123. There will be no change in the existing policy on lending against bullion. Banks should recognise the overall risks in extending Gold (Metal) Loans as also in extending SBLC / BG. Banks should lay down an appropriate risk management / lending policy in this regard and comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

23.124. Nominated banks are not permitted to enter into any tie up arrangements for retailing of gold / gold coins with any other entity including non-banking financial companies / co-operative banks / non-nominated banks.

23.125. The above guidelines are subject to the directions issued under Foreign Exchange Management Act (FEMA) from time to time.