GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA
UNSTARRED QUESTION NO-869

ANSWERED ON TUESDAY, FEBRUARY 11, 2025/MAGHA 22, 1946 (SAKA)

RISE IN GOLD LOAN DEFAULTS

869. SHRI PRAMOD TIWARI

Will the Minister of FINANCE be pleased to state:-

(a) whether, according to RBI data, gold loan defaults have surged significantly;

(b) if so, the details thereof and the reasons therefor;

(c) whether RBI has raised concern over irregularities in the gold loan sector; and

(d) if so, the steps proposed to be taken by RBI for better credit assessment, borrower education and more flexible repayment options?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) to (d): The gross non-performing assets (GNPAs) ratio pertaining to gold loan in Scheduled Commercial Banks was 0.20% against overall GNPA ratio of 2.75% as on 31.3.2024 and 0.22% against overall GNPA ratio of 2.67% as on 30.6.2024.

The Reserve Bank of India (RBI) has advised supervised entities (SEs) to comprehensively review their policies, processes and practices on gold loans to identify gaps and initiate appropriate remedial measures in a time-bound manner. SEs were also advised to closely monitor their gold loan portfolios and ensure adequate controls over outsourced activities and third-party service providers.

Various steps have been taken by the government and RBI to mitigate the risks of NPAs in the gold loans and better credit assessment. Such steps include, *inter alia*, the following:

(a) The Department of Financial Services, *vide* its communication dated 27.2.2024, advised Public Sector Banks (PSBs) to conduct a comprehensive review, including assessment and assaying of collateral, analysis of interest and other charges collected from borrowers, *etc.*, of entire gold loan portfolio sanctioned/disbursed during the period from 1.1.2022 to 31.1.2024, to ensure that gold loans disbursed by banks are adhered to regulatory requirements and internal policies of the bank.

(b) RBI, on 30.9.2024, advised SEs to comprehensively review their policies, processes and practices on gold loans to identify gaps, and initiate appropriate remedial measures in a timebound manner. SEs were also advised to closely monitor their gold loan portfolio and to ensure that adequate controls are in place over outsourced activities and third-party service providers.

(c) To safeguard lenders against risks such as gold price fluctuations, valuation errors, *etc.*, as per the extant RBI instructions, regulated entities including banks and non-banking financial companies (NBFCs) are not permitted to extend loans exceeding 75% of the value of gold ornaments and jewellery. This Loan-to-Value (LTV) ratio of 75% is required to be maintained throughout the tenure of the loan.

(d) Further, for loans where both interest and principal are due for payment at maturity of the loan (bullet repayment loans), banks are not permitted to extend loans exceeding tenure of 12 months from the date of sanction so as to reduce the risk of loan defaults.

In accordance with extant RBI guidelines, banks are taking several steps to mitigate the risk involved in gold loans and to ensure proper valuation of gold offered as collateral. These include, *inter alia*, the following:

(a) Assessment and Reassessment of gold offered as collateral at regular intervals to ensure purity of gold by various methods, such as acid tests, touchstone testing, X-ray fluorescence (XRF) analysis, *etc.*

(b) Empanelment of trained and skilled appraisers to assess the value of gold pledged.

(c) Valuation of the gold pledged by the borrower is done under CCTV surveillance in the presence of Branch Officials and borrower.

(d) Audits at periodic interval is carried out, *inter alia*, to ensure that gold loans are made in accordance with the regulatory guidelines and internal policies.

Further, with regard to flexible repayment options, banks and NBFCs provide gold loans with equated monthly instalments and bullet repayment.

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