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Key takeaways from the Reserve Bank of India (Lending against Gold and Silver Collateral) Directions, 2025

19 June 2025

Introduction

The Reserve Bank of India (RBI) issued the Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025 (Gold/Silver Collateral Directions)[1] on 6 June 2025. The Gold/Silver Collateral Directions is applicable to:

(a) commercial banks (excluding payments banks), including small finance banks, local area banks, and regional rural banks;
(b) primary (urban) co-operative banks and rural co-operative banks such as state and central co-operative banks; and
(c) non-banking financial companies (NBFCs), including housing finance companies.

All regulated entities (REs) to whom the Gold/Silver Collateral Directions are applicable are collectively referred to as 'Lenders'.

We have detailed below the key takeaways from the Gold/Silver Collateral Directions below:

A. Defining key terms to reduce ambiguity

'Consumption Loan' means any permissible loan that does not fit the definition of income generating loan.

'Income Generating Loan' means loans extended for the purpose of productive economic activities, such as farm credit, loans for business or commercial purposes, loans for creation or acquisition of productive assets etc.

'Loan to Value (LTV) ratio' on a day means the ratio of the outstanding loan amount to the value of the pledged eligible collateral as on that day. In case of bullet repayment loans, however, the LTV calculation shall take into account the total amount repayable at maturity.

'Jewellery' means items that are designed to be worn as personal adornments.

'Ornaments' means items meant for use as adornment of any object, decorative items, or utensils, excluding those items that fall under the definition of *jewellery* as defined under 6(vii) above.

'Primary Gold and Primary Silver' mean gold and silver in any form other than in the form of a jewellery, ornaments and coins.

Key takeaways: The Draft Reserve Bank of India (Lending Against Gold Collateral) Directions, 2025 (Draft Directions) released on 9 April 2024[2] for comments had proposed to include more detailed provisions to

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[1] The Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025 dated 6 June 2025, as available at: RBI [Reserve Bank of India - Notifications]
[2] The Draft Reserve Bank of India (Lending Against Gold Collateral) Directions, 2025 released on 9 April 2025, as available at: [Reserve Bank of India - Database]

highlight the distinction between Consumption Loans and Income Generating Loans, including specific end-use monitoring requirements. These proposed amendments have been done away with in favour of more streamlined definitions in the Gold/Silver Collateral Directions. Consumption Loans have been broadly defined to include all gold and silver collateral-based loans which are not categorised as Income Generating Loans, thereby ensuring that there is no ambiguity in the classification of such loans.

The Gold/Silver Collateral Directions further defines the terms 'jewellery' and 'ornaments' to distinguish the same from primary gold and silver. When read along with the restrictions on lending against Primary and Primary Silver including financial assets such as units of exchange traded funds and mutual funds, the Gold/Silver Collateral Directions clearly spells out the form of gold and silver that may be used as eligible collateral for a loan.

The definition of LTV ratio seeks to address issue of ambiguity on how the LTV ratio needed to be reckoned for different Lenders. The new definition ensures that the manner of calculation of the LTV ratio is standardised for all Lenders, especially in the case of bullet repayment loans, where it was noted by the RBI in the past that only the principal payable was taken into account at the time of calculation of the LTV Ratio by some Lenders. Now Lenders must ensure that the total amount payable will need to be considered for calculating the LTV ratio for bullet repayment loans.

B. Harmonising practices in gold and silver collateral-based lending

The RBI, at the time of releasing Draft Directions, had highlighted the need for harmonisation of practices followed by various categories of Lenders for gold and silver collateral-based loans. In the past, the RBI issued instructions separately to different categories of Lenders leading to different practices for credit appraisal and due diligence, difference in quantum of loans that could be granted with bullet repayment option, ambiguity in the manner of maintenance of LTV ratio, as well as concerns regarding transparency and borrower rights.

The Draft Directions while seeking to create a level playing field, proposed a cap of 75% on the LTV ratio for Consumption Loans for all Lenders while capping the LTV ratio at 75% for all gold and silver collateral-based loans issued by NBFCs including Income Generating Loans for which no cap was prescribed for other categories of Lenders. This appeared to put NBFCs at a disadvantage when compared to other Lenders.

The RBI appears to have corrected the course by ensuring that the Gold/Silver Collateral Directions did not specify any terms applicable to any specific category of Lenders.

Key Takeaways: The Gold/Silver Collateral Directions shall be equally applicable to all Lenders, and they must comply with the provisions prescribed therein.

C. New Disclosure Requirements

The Gold/Silver Collateral Directions require Lenders to account for loans granted against silver and gold collateral separately and further distinguish these loans in their accounts basis their categorisation as Consumption Loans or Income Generating Loans. Further Consumption Loans offered as bullet repayment loans must be disclosed separately by Lenders. No such specific requirement is prescribed for Income Generating Loans.

Key Takeaways: The format for this disclosure is provided in Annex 1 of the Gold/Silver Collateral Directions and requires Lenders to disclose particulars such as unclaimed gold and silver in grams remaining with the Lender, number of loan accounts in which auctions were conducted, gold and silver acquired by the Lender in the financial year due to default of loans, recovery made through auctions, total gold and silver auctioned in the financial year in grams and percentage of recovery by the Lender against value of collateral and the outstanding loan.

D. Amendment to Lender's Policies

Erstwhile circulars and notifications while prescribing the requirement of Lenders having clear policies in relation to lending against gold and silver collateral never codified the specific requirements in one set of directions or notifications. The Gold/Silver Collateral Directions has sought to address this by setting out an inclusive list of specific aspects that need to be covered under the credit policies of Lenders such as:

(a) limits on single borrower and portfolio level lending against permitted gold and silver collateral;

(b) maximum LTV ratio permissible;
(c) actions to be taken in cases of breach of LTV ratio;
(d) valuation standards and norms;
(e) purity standards for the eligible collateral; and
(f) documentation requirements for loans proposed to be categorised under priority sector lending;

The Gold/Silver Collateral Directions also require standard operating procedures to be prepared as per the metrics defined in the credit policy covering aspects such as:

(a) conduct related aspects relating to the assaying process;
(b) criteria/qualification requirements for appointment of assayers/valuers;
(c) initiation and conduct of the auction processes including trigger events, timelines, mode of auction, period allowed for settlement of the loan before auction, empanelment of auctioneers etc.;
(d) loss or damage to eligible collateral;
(e) discrepancy in quantity or purity of eligible collateral during internal audits; and
(f) compensation to be paid to borrowers or their legal heirs in case of loss or damage to eligible collateral and timelines for the same.

Key Takeaways: The Gold/Silver Collateral Directions provide an overview of what the credit policies of the Lenders offering loans against gold and silver collateral need to include. The list of aspects to be covered is inclusive in nature and Lenders are free to include additional aspects such as manner of disbursements, documentation requirements for all sizes of gold/silver collateral-based loans, due diligence and credit appraisal requirements, monitoring requirements etc., in line with obligations set out in the Gold/Silver Collateral Directions. Lenders should ensure that their credit policies are updated, and relevant standard operating procedures are put in place that at minimum capture the specific points highlighted in this paragraph D above.

E. Improving ease of access for small ticket loans

Lenders were permitted under extant guidelines to determine the approach for lending against gold and silver collateral in line with their credit risk management frameworks. This has been continued in the Gold/Silver Collateral Directions, and Lenders have been permitted to continue determining the approach for lending taking into account the principle of proportionality and ease of access to small ticket loans. However, the Gold/Silver Collateral Directions require detailed credit assessments, including assessment of the ability of the borrower to repay the loan, to be conducted for gold/silver collateral-based loans where the total loan amount exceeds INR 2,50,000.

Key Takeaways: The RBI has continued to provide Lenders flexibility in sanctioning of small ticket loans without conducting detailed credit assessments, which would reduce the overall cost of such loans and keep them within the reach of rural and semi-urban borrowers. However, proper credit assessments will need to be conducted for all gold/silver collateral-based loans where the total loan amount exceeds the INR 2,50,000 threshold.

F. Prevention of evergreening of bad loans

The Gold/Silver Collateral Directions clarify that top-up Loans can only be issued if the existing loan is classified as standard and within prescribed LTV ratio limits and cannot be issued without a request from the borrower and fresh credit assessments. For bullet repayment loans, accrued interest must be paid before a top-up / renewal is granted.

Key Takeaways: This appears to be a calculated move by the RBI to prevent evergreening by renewing overdue loans/issuing a fresh loan to delinquent borrowers which was previously highlighted as a deviant practice by the RBI in the notification on 'Gold loans - Irregular practices observed in grant of loans against pledge of gold ornaments and jewellery' dated 30 September 2024. Further, top-up loans can only be granted if the borrower makes a request for the same. Considering this requirement, Lenders should ensure that they retain the communication from the borrower for top-up or renewal of the loan in an auditable manner.

G. New restrictions and ceilings

The Gold/Silver Collateral Directions reiterate the restriction and ceilings existing in extant guidelines such as lending against primary gold and silver including financial assets back by primary gold and silver, monitoring frequent loans issued to single borrowers beyond internally prescribed thresholds under in line with its anti-money laundering framework, as well as the restriction on lending against collateral where the ownership of such collateral is doubtful. However, specific requirements such as the requirements of maintaining record of verification of ownership for gold collateral obtained from a borrower when it exceeded 20 grams (under the Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (Scale Based Regulations[3])) have been replaced in the Gold/Silver Collateral Directions with and a general restriction is put in place for ensuring that Lenders are vigilant and take measures to establish ownership of the collateral before lending against the same.

Specific restrictions are also included on pledge of collateral of borrowers by the Lenders for loans or grant of loans on re-pledged gold and silver collateral of borrowers. For Consumption Loans issued with bullet repayment obligations, the tenor of the loan is restricted to 12 months, though no such restriction is prescribed for Income Generating Loans.

Further as a measure of limiting exposure to a single borrower a restriction has been placed on the extent of collateral that may be accepted from each borrower. In case of ornaments the aggregate weight of ornaments pledged by a borrower for all loans sanctioned shall not exceed 1 kilogram for gold ornaments, and 10 kilograms for silver ornaments. For coins this limit is 50 grams in case of gold coins and 500 grams for silver coins.

Key Takeaways: Lenders should ensure that they conduct a proper due diligence and obtain declarations from the borrowers in the event there is any doubt regarding the ownership of any collateral. The restriction on the tenor of bullet repayment loans was missing from circulars and notifications issued to certain Lenders such as NBFCs. Such Lenders must now ensure that bullet repayments option should only be granted for any loan categorised as a Consumption Loan if the tenor of such loan is under 12 months. As the Scale Based Regulations have not been amended in the Gold/Silver Collateral Directions, the requirements therein should also be considered by NBFCs till such provisions are amended by the RBI.

H. Change in Valuation Metrics

Prior to the Gold/Silver Collateral Directions, various guidelines and regulations issued by the RBI, including the Scale Based Regulations, required valuation of gold to be done on the basis of the prevailing 22-carat gold price, with lower purity gold being valued proportionately. Silver was proposed to be valued in a similar manner basis the price of 999 purity silver under the Draft Directions. The Gold/Silver Directions has changed this practice by allowing for gold and silver to be valued on the reference price corresponding to its actual purity. For calculating the value, the Lender may use to the lower of:

(a) the average closing price of gold or silver of the same purity over the previous 30 days; or
(b) closing price of gold or silver of the same purity on the previous day published by the Indian Bullion and Jewellers Association Limited or a commodity exchange regulated by SEBI.

In case the price of a specific purity of gold or silver is unavailable, then the Lenders are permitted to use the published price of the nearest purity and proportionally adjust the weight of the collateral to determine the value. It is also clarified in the Gold/Silver Collateral Directions that only intrinsic value of gold or silver shall be reckoned for determining the value of the collateral and no other element such as cost of precious stones present in the jewellery or ornament shall be considered.

Key Takeaways: The Gold/Silver Collateral Directions present a simplified process for valuation as earlier all gold **needed** to be valued proportionately against 22-carat gold. This might reduce the effort required for valuation as the gold and silver prices of the same purity can be used without having to proportionately determine the price in relation to a fixed purity.

I. Amendment to LTV Ratios.

The Draft Directions had proposed a cap of 75% on the LTV ratio for Consumption Loans for all Lenders while capping the LTV ratio at 75% for all gold and silver loans issued by an NBFC (in line with the LTV ratio prescribed under the Scale Based Regulations. This appeared to put NBFCs at a disadvantage when compared to other Lenders. The RBI appears to have addressed this inequality and harmonised the LTV

[3] The Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 as available at: [Reserve Bank of India - Master Directions]

ratio for all Lenders in the Gold/Silver Collateral Directions by proposing uniform maximum LTV ratios for all Lenders basis the value of the Consumption Loan.

Under the Gold/Silver Collateral Directions, Lenders are required to maintain an LTV ratio of 85% for Consumption Loans up to a value of INR 2,50,000, 80% for Consumption Loans between INR 2,50,000 and 75% for Consumption Loans above INR 5,00,000.

Key Takeaways: The increase in value of the loans that may be granted, and the maximum LTV ratio is a welcome change for all Lenders. While it is prescribed that the LTV ratio must be maintained on an ongoing basis throughout the tenor of the loan, the proposed requirement of additional standard asset provisioning being applicable in case of breach of the LTV ratio in the Draft Directions has been done away with and Lenders are given the flexibility to determine the actions to be taken in case of breach of LTV ratio under their credit policies.

For Income Generating Loans, the maximum LTV ratio permissible can be determined by the Lender as per their credit policy. While flexibility is granted to Lenders to determine the maximum permissible LTV ratio, they should ensure that this is done taking into account their risk management policies and based on prudent considerations.

It further appears that at present the 75% LTV ratio threshold prescribed under the Scale Based Regulations will continue to apply to NBFCs, as the proposed amendment of the relevant paragraphs of the Scale Based Regulations suggested in the Draft Directions is missing from the Gold/Silver Collateral Directions. We expect further clarity to be shed on this by the RBI soon, as the Scale Based Regulations do not distinguish between Consumption Loans and Income Generating Loans and therefore the 75% LTV ratio limit may continue to apply to even NBFCs for Consumption Loans, which appears contradict with the enhanced LTV ratio limits prescribed under the Gold/Silver Collateral Directions.

J. Loan Documentation

The Gold/Silver Collateral Directions continue to follow the RBIs push to create homogeneity and transparency in loan documentation and calls for standardised loan documentation which includes full details of the collateral, auction process, and all applicable charges in a language as understood by the borrower. Further, borrowers must be provided a signed certificate / e-certificate describing the weight, purity, valuation, and deductions of their pledged gold. Further, for illiterate borrowers, all details of the loan must be explained to them in the presence of a witness.

Key Takeaways: Through these measures, the Gold/Silver Collateral Directions promote customer protection, particularly in rural and semi-urban markets where borrowers may lack financial literacy. The requirement of transparency in loan documentation along with borrower awareness, and assayer transparency also seek to address past concerns about opaque gold loan practices. Lenders should ensure that they obtain declarations from the borrower or their witness in case of an illiterate borrower that all the terms of the loan has been understood and accepted by the borrower.

K. Management of Collateral

The Gold/Silver Collateral Directions reiterate that the collateral must be handled only by employees of the Lenders in secure facilities with adequate vaults. Regular audits and unannounced inspections are to form a part of the Lender's internal audit process. Borrowers must receive their pledged collateral back within seven working days of loan repayment and any delay on the Lender's part would require compensation of INR 5,000 per day must be paid to the borrower. If collateral is damaged or lost, the Lender must compensate the borrower according to their policy. For unclaimed gold remaining over two years post repayment, the matter must be escalated to the board of the Lender or its customer service committee every six months.

Key Takeaways: The RBI's focus on collateral management reflects its intent to address systemic weaknesses and prevent reputational risk for Lenders. The Gold/Silver Collateral Directions aims to resolve long-standing issues of delays, value mismatches, and customer grievances. These norms seek to address the irregularities previously noted by the RBI in practices adopted by Lenders when dealing with collateral received from borrowers. Further fixing the amount of compensation creates a transparent system that leaves no room for ambiguity as to the amount to be paid in the event of delay on part of the Lender.

Date of Adoption

The instructions issued under the Gold/Silver Collateral Directions are to be complied with as expeditiously as possible but no later than 1 April 2026. The RBI has provided for grandfathering of loans sanctioned prior to the date of adoption of the Gold/Silver Directions by the Lenders.

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