



BANKING AND FINANCE

A New Era Of Responsible Lending: RBI's Lending Against Gold And Silver Collateral Directions, 2025

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Introduction

On June 6, 2025, the Reserve Bank of India (RBI) introduced a comprehensive regulatory framework titled the Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025. This much-anticipated reform seeks to harmonize the treatment of loans secured by gold and silver collateral across all types of regulated entities (REs), ensuring greater prudence, borrower protection, and operational transparency.

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Background: Why a Unified Framework Was Needed

Historically, RBI's approach to regulating loans against gold and silver was scattered across numerous circulars issued over decades ranging from 1964 to 2023. These directions varied in application and interpretation depending on the nature of the regulated entity (banks, NBFCs, co-operative banks, etc.) This fragmented regulatory structure often led to inconsistent practices, conduct-related issues, and supervisory gaps.

To simplify this, the RBI has now consolidated and repealed over 30 earlier circulars (listed in Annex 2 of the Directions), aiming to bring uniformity, close regulatory gaps, and reinforce customer protection.

Applicability and Effective Date

The Directions apply to a wide array of REs involved in extending loans against gold and silver:

- Commercial Banks, including Small Finance Banks and RRBs (excluding Payments Banks)
- Urban and Rural Co-operative Banks
- NBFCs, including Housing Finance Companies

The Directions will become fully effective by April 1, 2026. However, loans sanctioned prior to this date will remain governed by the guidelines in effect at the time of their issuance.

Key Highlights of the New Directions

1. Scope of Permissible Collateral

Only gold and silver jewellery, ornaments, and coins are recognized as eligible collateral. Lending against primary gold/silver bullion or financial instruments backed by such assets (like ETFs) is strictly prohibited.

2. Loan to Value (LTV) Caps

To reduce overleveraging, the RBI has introduced tiered LTV caps based on loan size:

- Up to ₹2.5 lakh: 85%
- ₹2.5–5 lakh: 80%
- Above ₹5 lakh: 75%

This LTV must be maintained throughout the tenure of the loan.

3. Assaying, Valuation and Standardisation

Valuation must be based on the lower of:

- The 30-day average closing price; or
- The preceding day's closing price of equivalent purity, published by IBJA or a SEBI-recognised commodity exchange.

Assaying procedures must be standardized across branches, with full borrower visibility and documentation.

4. Consumer Protection Measures

- Borrowers must receive a detailed certificate indicating the purity, gross and net weight, deductions, image of the pledged asset, and its assessed value.
- All communication, including loan agreements and auction notices, must be in the regional language or one chosen by the borrower.
- Delay in returning collateral post-repayment will attract compensation of ₹5,000 per day to the borrower.

5. Operational Restrictions and AML Checks

- Loans cannot be sanctioned if ownership of the collateral is doubtful.
- Repledging pledged gold or lending against third-party collateral is prohibited.
- Lenders must monitor frequent borrowing by the same individual for potential money laundering.

6. Top-Up Loans and Renewals

Top-up loans and renewals are allowed but only within the LTV limits and subject to credit assessment. For bullet repayment loans, renewals are allowed only after payment of interest.

7. Collateral Management and Auction Transparency

- Storage must be in secured vaults on the lender's premises.
- Auction procedures require a public announcement in at least two newspapers (one in the regional language and another in a national daily).
- Lenders or related parties are barred from participating in auctions to avoid conflicts of interest.
- Reserve price cannot be lower than 90% of current value, reduced to 85% only after two failed auctions.
- Surplus proceeds must be returned to borrowers within 7 working days.

8. Unclaimed Collateral

Gold/silver not claimed within two years of full repayment is to be treated as unclaimed. Periodic efforts must be made to locate borrowers or legal heirs, with reporting to the Board or Customer Service Committee.

9. Disclosure Obligations

Lenders must disclose detailed loan portfolio information relating to gold and silver-backed loans including LTV ratios, NPAs, and auction recoveries in their financial statements.

Implications for Borrowers and Financial Institutions

For Borrowers

- Understand the LTV limit applicable to your loan amount (85%, 80%, or 75%).
- Be present during assaying of pledged gold/silver and review the certificate carefully.
- Carefully read the loan agreement for terms, charges, auction clauses, and compensation rules.
- Avoid frequent gold/silver loans that might trigger AML scrutiny.
- Ensure timely and full repayment to avoid auctions.
- Collect your pledged items promptly after repayment (delays beyond 2 years can mark it unclaimed).
- Know that you're entitled to refund of surplus from auction proceeds within 7 working days.

For Lenders

- Set and monitor LTV ratios, ensure they are maintained throughout the loan tenure.
- Adopt uniform SOPs for assaying, valuation, auction procedures, and collateral handling.
- Ensure transparent documentation, including loan terms, charges, auction triggers, etc.
- Monitor borrowers for frequent loans or high-value pledges, and report as per AML policy.
- Don't allow top-up or renewal if LTV is breached or the loan is not classified as standard.
- Return pledged items within 7 working days post full repayment or pay ₹5,000/day delay.
- Clearly communicate and execute surplus refund and shortfall recovery as per loan terms.

Insist on communication in your preferred language; get terms explained if you're illiterate.

Provide all communications in regional or borrower's chosen language, ensure witness for illiterate borrowers.

Maintain a copy of the assay certificate with details on purity, deductions, and image.

Issue duplicate assay certificate, one retained with lender, the other given to borrower.

Conclusion

The RBI's 2025 Directions on Lending Against Gold and Silver Collateral reflect a mature, forward-looking regulatory stance that balances borrower needs with financial prudence. By unifying and upgrading legacy norms into a single set of principles, the RBI has paved the way for more responsible and transparent gold loan practices.

Financial institutions must treat these guidelines as compliance requirements, and as an opportunity to build trust and better serve customers particularly those who rely on gold loans to manage short-term liquidity.

For more details, write to us at: contact@indialaw.in

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