

RBI's New Gold Loan Regulations: Balancing Transparency and Accessibility

June 1, 2025 • vajiramandravi.com



RBI's Gold Loan Norms Latest News

- Recently, the Reserve Bank of India (RBI) released draft directions on loans against gold collateral.

Strengthening Oversight on Gold Loans

- The Reserve Bank of India (RBI), on April 9, 2025, released draft guidelines aimed at regulating loans disbursed against gold as collateral.
- These measures are intended to harmonise practices across regulated entities such as banks and **Non-Banking Financial Companies** (NBFCs), in light of substantial growth in gold loan portfolios and growing concerns around irregular lending practices.
- This regulatory push follows a significant spike in gold loan activity, especially by banks, whose gold loan portfolios more than doubled during FY 2023-24.

- While the product remains a vital source of short-term credit for rural and semi-urban borrowers, inconsistencies in its disbursement, valuation, and recovery mechanisms prompted RBI to propose reforms for standardisation and borrower protection.

Background and Rationale for the Reform

- The proposed changes come amid fears of growing systemic risk and uneven lending practices. In some cases, gold loans were being extended beyond regulatory norms, particularly through top-up and bullet repayment structures.
- The Tamil Nadu government, highlighting the socio economic relevance of gold loans, especially in rural South India, raised concerns with the Union Finance Ministry about the potential impact of these changes.
- In response, the Ministry of Finance clarified that the **RBI would ensure small borrowers are not adversely affected and that the implementation of new rules would begin only from January 1, 2026**, providing adequate lead time for stakeholders to adjust.

Key Proposals in the Draft Guidelines

- The draft guidelines encompass several major changes intended to increase transparency and reduce borrower vulnerability:
 - **LTV Norms:** The maximum Loan-to-Value (LTV) ratio remains capped at 75%. However, for consumption-based bullet loans, the accrued interest is now included in LTV calculations, thereby reducing the net disbursed amount.
 - **Collateral Ownership Verification:** Borrowers must provide proof of ownership of the gold to prevent fraudulent pledging.
 - **Standardisation of Valuation:** All gold pledged must be valued at 22-carat purity, with uniform standards for purity and weight assessment.
 - **Loan Renewals and Top-ups:** These will be allowed only if the original loan is standard and within the LTV cap.
 - **Concurrent Loans:** Borrowers will not be allowed to take simultaneous loans for consumption and income-generation using the same gold collateral.
 - **Timely Return of Collateral:** Lenders failing to return gold within seven working days of loan repayment will be liable to compensate the borrower ₹5,000 per day.

Impact on Borrowers and Lending Institutions

- While the reforms aim to protect consumers, especially from aggressive or opaque lending practices, they also come with trade-offs:
 - **Reduced Flexibility for Borrowers:** The new requirement for complete repayment (principal + interest) before renewing or topping up a loan will likely affect liquidity-strapped borrowers.
 - **Lower Loan Disbursal:** With stricter LTV norms (factoring interest), borrowers may need to pledge more gold to get the same loan amount or settle for smaller loans.
 - **Increased Compliance Burden:** Documentation, ownership verification, and standardised valuation practices will increase operational overheads, especially for small NBFCs.

- **Cost Pass-through:** Higher operational costs and risk mitigation measures may result in increased interest rates or charges for borrowers.

Addressing Concerns of Market Disruption

- The RBI's move has prompted questions about whether a uniform policy is appropriate, given the diversity of India's financial landscape.
- Rural borrowers often depend on gold loans as their only source of formal credit, and a one-size-fits-all approach could disrupt credit access.
- Industry experts suggest that RBI could explore differentiated norms, such as micro-loan provisions for small borrowers and stricter norms for high-value loans.

Managing Volatility and Enhancing Sector Stability

- The RBI's proposal also comes amid a sharp rise in gold prices, which has further fuelled demand for gold-backed credit.
- However, volatility in gold prices can also pose risks for lenders, particularly if loans are overvalued or re-pledged.
- By ensuring risk-managed valuation practices, preventing re-pledging, and enforcing time-bound recovery protocols, the new norms aim to foster greater discipline in the gold loan ecosystem.
- Moreover, the regulations aim to level the playing field among lenders by setting common standards across banks and NBFCs, reducing regulatory arbitrage and enhancing consumer confidence.

Conclusion

- The RBI's draft norms for gold loans mark a significant step in regulating a fast-growing credit segment that caters predominantly to financially vulnerable groups.
- By tightening operational practices and enhancing transparency, the RBI seeks to curb risky lending behaviour without eliminating access to credit.
- The proposed January 2026 timeline provides sufficient scope for stakeholder consultations and fine-tuning, ensuring that gold loan reforms are implemented without disrupting the flow of credit to those who need it most.

RBI's Gold Loan Norms FAQs

Q1. Why is the RBI revising gold loan regulations?

Ans. RBI aims to harmonise lending practices across banks and NBFCs while ensuring borrower protection amid rapid gold loan growth.

Q2. What is the revised Loan-to-Value (LTV) rule for gold loans?

Ans. The LTV ratio remains at 75%, but for bullet loans, accrued interest is now included in the LTV calculation.

Q3. How will the new rules affect borrowers?

Ans. Borrowers may face reduced loan amounts or need to pledge more gold due to stricter LTV and documentation requirements.

Q4. When will the new gold loan norms come into effect?

Ans. The RBI plans to implement the new norms starting January 1, 2026.

Q5. What happens if lenders delay returning gold after loan repayment?

Ans. Lenders will have to pay ₹5,000 per day as compensation for delays beyond seven working days.

Source: TH

Source: <https://vajiramandravi.com/current-affairs/rbis-new-gold-loan-regulations-balancing-transparency-and-accessibility/>

© Vajiram & Ravi. For personal use only.