

CREDIT POLICY FOR LOAN AGAINST GOLD

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Unimoni FS Ltd, India

Credit Policy for Loan against Gold

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1. Introduction

Design a framework for offering loan against gold within the Unimoni India overall business strategy, through a dedicated sales structure aligned with the existing branch network of the organization in a commercially sustainable manner which will give the customer a convenient method of accessing credit facility by pledging their gold ornaments.

The gold loan credit policy shall act as a guiding post for the top management of the company in conducting the business within acceptable risk tolerances and thus ensure both long term profitability and stability in lending operations.

2. Objectives

The main objective of the credit policy are to:

- i) Ensure a healthy balance between loan levels, profit and quality of assets.
- ii) Comply with the regulatory requirements / directives such as Capital Adequacy, LTV, Interest rates etc.
- iii) Lay down controls for assumption and monitoring of large exposures.
- iv) Develop and inculcate 'internal values' in the business of lending.
- v) Lay down proper system & procedures, appraisal standards at various levels in the Organization with sturdy internal controls.
- vi) Adequately protect the collateral from any possible loss.
- vii) Improve the capabilities and credit skills of employees and officers connected with loan portfolio at various levels.
- viii) Assist the company to successfully and consistently cope with competition.

3. Product Features

3.1 Product:

"Gold loan (also called LAG – loan against gold) is a **secured loan taken by the borrower from a lender by pledging their gold ornaments (within a range of 18-22 Karats) as collateral**. The loan amount provided is a certain percentage of the gold, typically up to 75%, based on the current market value and quality of gold."

Gold loans are provided to any Resident Indian who meets the KYC guidelines under the general category against gold ornaments pledged as collateral. The loan is given as a term loan.

3.2 Loan Period

All gold loans are sanctioned for a maximum of 36 months unless otherwise specified under a particular scheme.

3.3 Borrower's Eligibility criteria

Any individual who is the lawful owner of gold Jewellery offered as security as per ownership declaration submitted by him and fulfilling the KYC norms as per RBI guidelines. Loans shall not be used for any speculative or illegal or unlawful purposes violating the laws of the Country.

Borrower age limits is restricted as minimum 21 years of age and maximum 70 years of age at the time of loan sanctioning.

The borrower should be resident Indian. No loan can be issued to an NRI or foreigners.

3.4 Gold Loan Schemes

As circulated from time to time, duly assessing market conditions, and based on the approved scheme document.

3.5 Loan-to-Value

LTV % is fixed based on the circulars and directions issues by Reserve Bank of India from time to time. Currently maximum is up to 75% of Jewellery collateral. However rate per gram under each schemes shall be centrally updated on LOS master screen based on scheme document. Such rates updated will be editable at branch levels.

To arrive at the RPG (Rate per gram), we take the average of previous 30 days market price of gold as per IBA (Indian bullion and jewelers Association).

3.6 Quantum of finance and deductions to be considered.

Quantum of finance will be decided on the basis of net weight of gold ornaments tendered as security, its purity subject to RBI guidelines issued from time to time regarding loan to value. Minimum loan amount per pledge would be 10,000/-subject to condition that minimum weight of gold jewellery that can be considered for pledge is 1 gram. The weight of pearl, diamond, coral or any other stone or foreign material other than gold contained or forming part of the ornament irrespective of its value shall be deducted from the gross weight of the ornaments to arrive at the net weight for calculating eligible loan amount.

3.7 Interest, Fee & Charges

Interest and other charges to be levied shall be governed by the interest rate policy adopted by the Board. The Board, or a committee empowered by the Board shall review the interest rates and other charges periodically and approve necessary revisions as per the business requirements. Any revision in interest shall only be with prospective effect.

Interest and other charges to be levied on the loan shall be as per the schemes formulated and amended from time to time. The interest rates shall be decided based on the cost of funds, and also gradation of risk, the underlying principle being, higher the risk higher the interest, within the ceiling rate decided by the Company. No loan shall be granted at a rate of interest less than the average cost of funds of the Company without the specific approval of the Board.

The interest shall be calculated for the actual number of days the loan remains outstanding since the date of loan disbursement to the date of closure. However, if the borrower closes the loan within 7 days from the date of disbursement, then a minimum interest for 7 days shall be payable.

For the purpose of calculation of interest, a year will be reckoned as 365 days. Interest will be calculated on monthly compounding basis.

If the due date for payment of interest falls on a Sunday/Holiday, the Company may, at its discretion, allow the borrower to pay interest on the next working day without slab change, treating the intervening Sunday/Holiday as grace period.

3.8 Penal Charges

In the event of failure by the borrower to repay the loan along with interest and other charges on the due date or within the grace period permitted, penal charges as decided by the Company from time to time and as intimated to the borrower in advance shall be charged over and above the regular interest for the period till the loan is closed completely.

3.09 KYC & Essential documents

- PAN- An Adhaar seeded PAN is mandatory for all loans.
- Identity and Address proof - Any of the valid identity proof, and an address proof required
 - Identity proof - Driving License / Passport / Voter ID / Aadhaar Card / Ration Card / PAN Card
 - Address proof - Driving License / Voter ID / Aadhaar Card / Passport / Utility Bills such as Electricity, Water, Telephone, Gas Bill / Copy of registered Sale or Lease Deed / Municipal Tax Receipt / Bank Statement for last 3 month with customer name & address
- Credit score checking is mandatory for loan amount Rs.50,000/- and above. Such credit score and report shall be saved in the system and will be available for future reference. A credit report can be considered as reliable for 6 months, need not to take new report if the borrower avails new loans within 6 months.
- Authorised CRM – An authorised CRM is the data of a customer with verified and confirmed information. The PAN need to be verified from NSDL data base, address proof to be verified and confirmed by seeing the copy of the documents. Bank accounts (if any) to be verified by penny drop method. A copy of the KYC and other document should be uploaded in the CRM. Gold Loan can be processed only for such an authorised CRM.

3.10 KYC Verification

Verifying Original OVD (Officially valid Documents) of Identity and Address proof of customer is mandatory. Need stamp & seal on the copy of OSV proofs (Original seen and verified) with the concerned employee's signature. An OSV stamped KYC copy is valid for 6 months only and fresh OSV process to be done after the period, if customer wants to avail new loan.

3.11 Gold Quality Assessment and loan eligibility.

Qualities of the Jewellery /Ornaments are assessed by an in-house appraiser as per various methods prescribed by the Company to make sure the quality of the jewellery offered for pledge. The net weight of the jewellery will only be considered after deducting the weight of the stones other metals, cloths etc embedded in the ornaments, if any.

The loan eligibility to be arrived based on the RPG (rate per gram) of the day.

3.12 Applicable Standard Deduction for all Ornaments

Karat	Minimum Deduction %	Maximum Deduction %
22 HM	98%	100%
22 K	95%	98%
21 K	88%	94%
20 K	81%	87%
18 HM	70%	75%
18 K	65%	70%

3.13 Impermissible Gold Loan Security Items

Melted Bar /Primary Gold, Jewellery of a temple/church or any religious institutions, Item specified by the Company in the negative list updated from time to time are cannot be accepted for pledging. Items where the borrower is unable to give a proof or declaration of ownership and Items which are not permitted to be taken as security by RBI are also to be avoided.

Negative list of Ornaments

Sl.No	Ornament	Remarks
1	Gold Coins, Gold Biscuit, Gold Bar	
2	Any non-wearable items crowns, swords etc. made in gold	
3	Eye glass / Spectacle frames made in gold	
4	Parts of Chapels / Shoes made in gold	
5	Locketts made with God's faces	
6	Gold items used as offerings in religions functions	
7	Gold Sculptures made in different shape	
8	Heavy ornaments like waist belt above 100 grams	
9	Mangalsuthra	
10	Ornaments with more than 50% stone weight	
	Ornaments below 18Kt purity	

3.14 Exceptions to ornaments in negative list

Branch head has been authorized to recommend for some of the items in negative list, if the purity is fine as per the guidelines. Zonal Head has the discretion to allow exception on negative items as mentioned below.

Male borrowers need to undergo tele-verification from family members, if mangalsutra is one of the collateral.

Waist belt greater than 100 grams is acceptable with dual valuation along with third party valuation(Computerised testing in metro location and local valuation in non-metro location or Gold

checking confirmation mail from regional internal auditor or from nearby branch head/LAG staff). Single Ornaments above the approved weight (Waist belt, Broad bangle, Bangle etc): Dual valuation along with third party valuation required. (Computerised testing in metro location and local valuation in non-metro location or Gold checking confirmation mail from regional internal auditor or from nearby branch head/LAG staff).

3.15 Credit Limit Approval Matrix

Branches need to get approval for each loan from the concerned approving authority as per the below table.

Credit Limit	Approving Authority	Documents to be submitted
up to 2,00,000	Branch Head	Credit Score and credit report CAM (Credit Assessment Memo) TVR (Tele Verification Report)
Above 2 lakh to 5 Lakh	Regional Head	
Above 5 lakh to 8 Lakh	Zonal Head	
Above 8 Lakh to 10 Lakh	Product Head	Credit Score and credit report CAM (Credit Assessment Memo) TVR (Tele Verification Report)
Above 10 Lakh to 15 Lakh	CFO	
Above 15 Lakh	CEO / Director	Third party valuation report Income proof Bank statement

3.16 Deviation Matrix

Exception list	Approving authority for exceptions		
	Zonal Head / ZAH	Product Head / Audit Head	CEO / CFO / Director
Contact Point Verification	Yes	Yes	Yes
Income Documents	Yes	Yes	Yes
RPG enhancement (with in RBI guidelines)	No	No	Yes
Credit Score	Yes	Yes	Yes
Processing Fee	No	Yes	Yes
Interest rate	No	No	Yes
Discount on interest / Charges	No	Yes	Yes

3.17 Loan Authorization

After getting the approval from the concerned authority, loan can be authorised in the system. BH can do such authorisation for loans up to Rs.2, 00,000/- and for all loans above 2 lakh to be authorised by HO audit dept / HO Gold Loan dept.

3.18 Loan Disbursement

- Disbursement in cash mode is limited to Rs.20000/- & for amount above 20,000/-, only online transfer to borrower's bank can be.
- If a cash payment above 20,000/- is insisted by the customer on an emergency purpose, he/she needs to provide the CDF (Cash Declaration Form) with a valid reason which will be verified and approved by Audit Dept/Loan Dept. In such cases, an amount up to 2 lakh can be disbursed in cash mode.

3.19 Safe keeping of collateral.

Jewelry pertaining to each loan need to be kept in separate tamper proof packets. Loan details to be written on the packet, and to be signed by the concerned staff and BHs. The gold valuation slip also to be kept in the packet along with ornaments.

Such gold packets can stored in the safe vault of the branch under dual key operation system. The packet once moved in to the vault can be taken out only for closing / partial release / Loan top up or for the purpose of audit.

Taking packets from the vault for any reason other than the above, should be approved by Product Head or the Audit Head.

3.20 Partial Release of Ornaments

Partial Release of loan can be done on customer request only on producing the receipt of 'Customer Pledge copy'. Processing fee, interest, and charges (if any) will be applicable as per scheme. Ornaments with purity deviation or weight difference as per audit reports, should be released first, before releasing any other ornaments.

Partial release is not allowed in the case of customer receipt missing cases. Fresh appraisal of Gold to meet LTV should be based on Karat -wise calculation for remaining ornaments.

3.21 Over Draft (OD) / Top-Up

Original Customer Loan Receipt (Pledge copy) is mandatory for Top-Up. It shall be allowed on the existing loan as per customer request, provided fresh gold appraisal & all check credit to be completed like a new loan process. Processing fee, interest, and charges will be applicable as per scheme.

Borrowers will be also allowed to avail the OD facility through Company's Web or mobile App. The borrower need not to be physically present in the branch for availing top up or need not to submit any documents.

3.22 Loan closing and Release of pledged ornaments.

The customer can close the loan by settling the up to the date dues including charges. The borrower need to visit the branch in person to take over the pledged security after loan closure. The gold loan receipt (pledge document – customer copy) to be surrendered at the time of loans closing.

- (a) In the case, if the borrower lost the gold loan receipt (pledge document – customer copy), he can submit an application for the release of ornaments, along with his/her KYC documents to prove the identity and execute an indemnity bond for the loss of loan receipt.
- (b) In the case, if the borrower is deceased the legal heirs of the borrower or the nominee can settle the loans and claim for release of ornaments. In such cases, they have to submit the application for release of pledged gold, along with the Death certificate of the borrower, legal heirship certificate, original loan receipt, KYC documents etc.
- (c) In the case, if the borrower not able to visit the branch for gold release he can authorise another person as his representative and to collect the pledged gold from our branches. In such cases, the borrower need to provide a letter authorizing the other person, and they have to submit the original loan receipt and KYC documents for verification.

In all such exceptional cases (a,b and c), the branch can collect and verify the relevant documents and to forward the same for approval from HO Gold Loan or Audit Dept.

3.23 Gold Loan Renewal Process

Customer has to directly submit a written request for renewal and that has to get approved by the BH, Audit Dept & AO-LAG Support. Pre-sanction assessment has to be done on gold purity as per new valuation, interest payment history, auditor’s remarks on ornament purity & credit score of the borrower.

Renewal can be done only by the borrower surrendering original pledge document (customer copy) and no other representatives are allowed. A loan can be renewed with the rates & charges applied in the live schemes available on the day.

The eligible loan amount for the new loan will be calculated as per the LTV prevailing on the day. It is mandatory that the shortfall in the principal amount/interest, if any, will have to be remitted by the borrower before loan renewal.

Ornaments to be re-appraised to confirm the purity, weight and deductions, and to be packed in a new tamper proof cover after renewal. Credit check to be done as a normal loan, and fresh set of documents to be filed in the records, as same as done during disbursement.

Newly generated pledge document (customer copy) has to be handed over to the customer with seal & signature.

3.24 Cash Receipt Limit

The cash receipt limit for a customer in all his active loans together will be Rs.2,00,000/- only.

3.25 OTP Validation

Loan disbursement, OD, partial release & loan closing need to be validated with an OTP send to the registered mobile number of the customer.

3.26 Spurious Gold/Stolen Gold

On finding Spurious or stolen gold pledge attempt by any customer, the branch has the right to immediately report the same to the RH, ZH, and ZAH and to the local police.

3.27 Inspection on pledged loan ornaments

Internal Audit Staffs will inspect and audit all the branches periodically on specified intervals to ensure the circulated instructions instructed by the company are being followed to. The audit department will verify the purity & quality of the pledged ornaments accepted and accounting procedure by the branches.

4. CREDIT CHECK

4.1 Customer Grading

Borrower profiles are graded in to 6 categories, based on the repayment behaviour.

STAR – A customer who has paid the interest or closed loans on or prior to the due date without any penal interest, other charges, notice charges or has not done any waiver on Interest Component is considered as Star.

GOLD – A customer who has paid the Interest on the due date without any penal interest, other charges, notice charges or has not done any waiver on interest component and has any active loans will be considered as grade Gold.

GREEN – If a customer has paid the interest within 30 days after due date and or has not done any waiver on interest or other charges component considered as Green. Once a customer is in this Category and has paid any future EMI on or Prior to Due date then the Customer Grade will get elevated to GOLD. If he/she has done waiver for the loan in between there is no chance of elevation to further grades unless the Loan gets closed.

BLUE – A customer who has paid the interest after 30 days and prior to 90 days, after due date and has not done any waiver on interest or any other charges, the Grade can be considered as BLUE. If the same grade customer is paying EMI on or prior due date then, he/she will be elevated to grade Green or Gold on sequential order, until if he/she will not do any waiver for the loan and unless the loan is closed.

RED – If a customer has paid the Interest after 90 days, after the due date the Grade can be considered as RED since the Loan is in NPA. There should not be any waiver done on interest and any other charges. If he/she is paying any future EMI on or prior to due date then the customer grade will be elevated to BLUE, GREEN or GOLD on sequential order until no waiver has been done for loans and unless the loan is closed. If in case the loan has gone in NPA or an auction has been conducted and closed without any principal loss, customer grade will remain in RED Category.

RED STAR – Red Star grade is given to those customers whose loans get closed by Auction with principal loss.

Gold Ownership

Branch executives should enquire and collect information about the genuineness, capacity to own and ownership of the gold jewellery brought by the borrower before loan disbursement. If the outstanding weight of the ornaments pledged by the borrower is more than 20 grams at one time or cumulatively, then a specific explanation on the ownership of gold has to be collected (Eg: inherited, gifted, purchased etc).

Pledge by third party for raising loans on behalf of the customer will be allowed only on the strength of Notarized Power of Attorney.

5. Gold Appraisal and Valuation

As per the RBI guidelines, a standard method needs to be followed to determine the value of gold. The valuation is done by an approved in-house gold valuation team dual checking mechanism. The purity of gold is measured only in Karat & negative ornaments are not considered for pledge. The loan-to-value rate is decided by RBI and it is currently set at 75% of the gold value. The final weight of gold is calculated by removing the weight of any stones, diamonds, gems, beads etc.

Rubbing on stone and acid test is the reliable and core method commonly used to test gold purity.

Additional tests recommended in policy guidelines can be done by branch to check for risk mitigation. Below mentioned are the stipulated guidelines on valuation process. 1 to 5 are the basic & normal tests done. If in case the appraiser is not satisfied with those tests he would rather conduct further tests if required from 6 to 8 based on Borrower's consent. For high value loans above 5 Lacs (individual or cumulative), dual check will be done by nearby BH or Regional Audit Head.

5.1 Rubbing on Touchstone:

The procedure includes rubbing the gold on black stone, leaving a visible mark. The mark left on the stone is solid and gold in colour shows its purity. Colour variations in mark helps the appraiser to decide the fineness of gold. If there is no line or only a faint one, then the piece is likely plated or not gold at all.

5.2 Sound Test:

Gold has a unique and long clinging sound when dropped on a stone or glass. This helps the appraiser to identify and judge if other metals are mixed in the ornament.

5.3 Weight Test:

One of the most convenient features of gold is that it is denser than other metals, which distinguishes it from other metals quite well.

5.4 Finishing Test:

The ornaments made out of gold will have perfect finishing rather than ornaments made out of other metals by which the appraiser can come to a proper conclusion.

5.5 Magnet Test:

Holding a strong magnet next to gold to watch for a reaction. If it's real gold it will not stick to the magnet.

5.6 Nitric Acid Test and Salt Water Test:

The nitric acid is poured on the gold ornament and 10 seconds later, liquid black salt is poured on it to increase the intensity of the nitric acid. These two chemicals help the appraiser detect any impurity in gold. Fake gold will produce white fumes from the rubbed part.

5.7 Scratching Test:

Scratching on a specific point to know the purity inside.

5.8 Destructive Test:

The gold ornaments has to be cut into two pieces through which the appraiser can find out if there are copper or any other metals present in the inner portion of the ornament.

6. General Guidelines

6.1 Safe Vault operation guidelines

To keep the gold packets safely strong vaults are available in all branches. Such vaults can be operated (opening and closing) by using two keys in a specified order mentioned operating guidelines. The first set of keys to be held by Branch Head or ABH and the other set to be held by Cashier or Gold Loan staff.

To operate the safe (to opening or closing of the doors) both the key holders should use their keys independently. The vault door should not left unclosed or locked by only one key.

6.2 Concentration of Credit/Investment

The Sanction amount of each single borrower shall be limited to 25% of Tier 1 capital of the company and for a group of borrowers the limit cannot be exceeded to 40% of Tier1 capital

6.3 Security Asset Handover Process

In case of Gold Ornaments the same will be handed over to the customer on T+1 working days. In case of immovable assets documents will be handed over in T+29 days.

7. Gold Loan Files, records & Registers

Branch should maintain files to keep the loan documents undergoing different process securely for audit & verification purpose such as- Application File, Weekly Stock Report File, Interest/Part Payment File, and Auction File & Loan Closing File.

Gold Packing Report Register

In Gold Packing Report Register, the details of gold transferred to the vault room after loan disbursement, and the details of packets kept after the renewal process are to be recorded.

Gold Movement Register

'In' and 'Out' movement of Gold packets should be recorded in the Gold Movement Register in real time basis, and the purpose of the movement also to be recorded. The custodians of the vault key should sign on the record for each packet movement. Keep the movement register in vault room only.

Key Movement Register

Any movement of vault key is recorded in the Key Movement Register, signed by new & old custodians with date and time entry in the register. Ideally key movement entry should be done under CCTV recording and post verification of cash or inventory taken of secured gold by the new custodian. Branch must keep vault key movement register in vault room only.

Business Correspondence.

Business Correspondent is an extended arm of a Bank who is providing Financial and Banking services to the customers in unbanked and underbanked areas. Basically, BCs enable a bank to

expand its outreach and offer limited range of banking services at low cost, as setting up a brick and mortar branch may not be viable in all cases.

The company may engaged as BC of any bank to provide loan services such as lead generation, KYC verification, gold purity checking and interest collection to the customers.

Overdraft Facility from Financial Institutions against Re- pledge of Gold.

All internal procedures and instructions as well as regulatory provisions as applicable to ordinary gold loans will be applicable for gold loans that come under the re-pledge arrangement with Financial Institution.

The borrower will pledge the gold in Unimoni to avail the loan. The customer will be informed about the re-pledge facility with bank, and a consent of the customer to re-pledge their gold with bank will also be obtained from them at the time of pledge.

Re-pledged loans can be closed only during the working hours of the Bank. So, the borrower may inform our branch about the loan closing in advance, so that we can arrange the closing of loans from the bank in time.

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