RBI’s increase in Loan-to-Value (LTV) ratio

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Why in News?

The Reserve Bank of India (RBI) recently increased the loan-to-value (LTV) ratio for gold-backed loans up to Rs.5 lakh recently.

- **Loan-to-value Ratio -** It indicates the percentage of an asset's value that a lender is willing to finance through debt.
- To calculate LTV, divide the loan amount by the lower of the property's appraised value or purchase price.
- LTV Ratio = (Loan Amount/Appraised Property Value) x 100.
- **Recent Changes by RBI** - It aims to ease credit accessibility for small borrowers.
- This means that individuals can now get a larger loan amount against the same value of pledged gold.
- Specifically, for loans below Rs.2.5 lakh, the LTV has been raised to 85%, and for loans between Rs.2.5 lakh and Rs.5 lakh, it's set at 80%.
- However, all loans above Rs.5 lakh will have an LTV of 75%, the central bank specified in its final guidelines for lending against gold and silver collateral.

- RBI decided to raise that to 85% for small loans below Rs.2.5 lakhs per borrower, including interest, in the final guidelines on gold loans.
- State-owned lenders have been including both interest and principal while making gold loans under the current LTV limit of 75%, but in the case of some non-bank lenders and smaller banks, the LTV was being stretched till 88%.

Reference

Business Standard | LTV ratio