

Client: IGPC	Date: 22 nd May, 2020
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Personal Finance

Should you take gold loan to manage cash crunch?

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- > Several banks have recently also launched new gold loan schemes for those who may need funds for emergency.



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C OVID-19 pandemic has disrupted the finances of many. Almost all segments of society have been affected by the liquidity crunch. In such an uncertain scenario, bank credit is expected to be scanty till the time relative normalcy returns in the economic activity, say experts.

Given the situation, it is normal for investors to turn to safe havens which are reflected in the returns in gold prices in the year so far.

For liquidity, investors have the option to take loans against gold, which comes at a lower interest rate than personal loans.

(Also read: Key things to know about sovereign gold bonds)

"Gold has become an ideal liquid asset against which loans can be achieved. The rising prices can provide the much-needed additional money to the needy to tide over the crises," suggests Anurag Jhanwar, co-founder and partner, Fintrust Advisors LLP.

Several banks have recently launched new gold loan schemes for those who may need funds for emergency. Thanks to net banking and other internet-based facilities, borrowers can get the credit transferred almost instantly in case of gold loans.

Professor Arvind Sahay, chairperson, India Gold Policy Center (IGPC), IIM Ahmedabad, meanwhile, describes gold as the last resort for households and businesses.

(Also read: Keep these things in mind before investing in the yellow metal)

"With price near the record high and the Great Lockdown, gold can serve as a source to fund short term liquidity in event of financial stress," he added.

However, borrowers must also be vigilant and ensure they do not borrow excessively in case of gold loan, warns Pavithra Shetty, Independent Analyst/ co-founder and trainer at Tips2trade.

"Utilise debt smartly as over leverage in any scenario could severely impact one's financial well-being," he explains.

Nevertheless, some experts also advise against taking gold loans.

"Taking a loan in order to meet the liquidity crunch is not advisable as the global world is slowly opening and the situation will be stabilised with the passage of time," says Prathamesh Mallya, chief analyst, non agri commodities and currencies, Angel Broking Ltd.

"Moreover, the 20 lakh crore package by the government will also ensure that the push is given to all the necessary sectors in order to increase the overall consumption in the economy," he added.