



Reserve Bank of India (RBI) guidelines on 'Prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP), pertaining to Advances dated October 01, 2021 read with RBI clarification circular issued on November 12, 2021 and February 15, 2022.

With a view to increase awareness amongst the borrowers, placed herewith are concepts / clarifications / illustrative examples on due dates and specification of Special Mention Account (SMA) / Non-Performing Asset (NPA) classification dates.

Q 1) What is the meaning of the term 'Dues'?

Dues mean the principal / interest / any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

Q 2) What is the meaning of the term 'Overdues'?

Overdues means the principal / interest / any charges levied on the loan account which are payable but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, any amount due to the Corporation under any credit facility is 'Overdue' if it is not paid on the due date fixed by the Corporation.

Q 3) What is 'Stressed account'?

Borrowers are required to pay the EMI / instalment / interest at periodic intervals as per the terms agreed before availing the loan. In case such EMI / instalment / interest dues are not paid on or before the due date on agreed terms, such account is called as a 'Stressed account'.

Q 4) What is Special Mention Account (SMA)?

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of his / her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. Early recognition of such accounts will enable Corporation to initiate timely remedial actions to prevent their potential slippages to NPAs.

A loan account would be classified as a Special Mention Account (SMA) category if the amount due and payable to Corporation is not paid by borrower on due date. Basis ageing of overdues, the Corporation reports the borrowers under following categories of SMA:

Loans other than revolving facilities:

SMA Sub Categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue
SMA – 0	Upto 30 days
SMA – 1	More than 30 days and upto 60 days
SMA - 2	More than 60 days and upto 90 days

Q 5) What is NPA?

A Non-Performing Asset (NPA) is a loan or an advance where interest and / or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.

Q 6) At what periodicity the Corporation undertakes the classification of Accounts as SMA or NPA ?

Corporation undertakes the process of classification of Accounts as SMA / NPA on daily basis during the Day-end-Process.

Q 7) Whether all loan accounts of the borrower are classified as NPA if one of his / her loan account turns NPA ?

Yes, NPA classification is borrower wise and not account wise. Hence if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower also will be classified as NPA.

Q 8) Whether amount paid / deposited during the day is considered during the NPA marking process ?

Credits received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credits received subsequently are treated as receipts for the subsequent day.

Q 10) How borrower accounts are upgraded to regular status after being classified as NPA ?

A loan account classified as NPA will be upgraded to Standard Asset only upon regularization of all loan accounts of the borrower having arrears.

Q 11) What is the impact on the borrower if account is slipped to Stress / NPA ?

As per the regulatory guidelines, Corporation has to report Stress / Default / NPA to Credit Information Companies (Eg: CIBIL) from time to time which impact the credit history of the borrowers.

Q 12) When will an account move into SMA or NPA? Can this be explained with an illustrative example?

Example for SMA / NPA status for loan facilities in the nature of Term Loans:

All dues paid :

Date	Principal Due / Interest Charged Rs.	Recovery Rs.	Days Past Due	Status
31-03-2022	1000	1000	0	Regular

No dues paid :

Date	Principal Due / Interest Charged Rs.	Recovery Rs.	Days Past Due	Status
31-03-2022	1000	-	1	SMA-0
30-04-2022	1100	-	31	SMA-1
30-05-2022	-	-	61	SMA-2
31-05-2022	1150	-	62	SMA-2
29-06-2022		-	91	NPA (Sub Standard)

Partial dues paid (during SMA) :

Date	Principal Due / Interest Charged Rs.	Recovery Rs.	Days Past Due	Status
31-03-2022	1000	-	1	SMA-0
30-04-2022	1100	800	31	SMA-1
25-05-2022	-	500	26	SMA-0
31-05-2022	1150	-	32	SMA-1
28-06-2022	-	1000	29	SMA-0
30-06-2022	900	-	31	SMA-1

Partial dues paid (after NPA) :

Date	Principal Due / Interest Charged Rs.	Recovery Rs.	Days Past Due	Status
31-03-2022	1000	-	1	SMA-0
30-04-2022	1100	-	31	SMA-1
30-05-2022	-	-	61	SMA-2
31-05-2022	1150	-	62	SMA-2
29-06-2022	-	-	91	NPA (Sub Standard)
30-06-2022	-	3000	31	NPA (Sub Standard) #

The account classified as NPA is upgraded only when the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Corporation.

Q 13) What is the accounting method used by the Corporation to arrive at the number of days overdue for determining the SMA/NPA status? Can this be explained with an illustrative example?

The application of 'First in First Out' (FIFO) is in place for appropriation of payments into the borrower account. The Principle of FIFO i.e., 'First In First Out accounting method is applied to arrive at the number of days of overdue for determining the SMA / NPA classification. In FIFO method, the oldest outstanding dues in the loan account will be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

For example, in a loan account as on 01.02.2022, there are no overdues, and an amount of Rs 100 is due for payment towards principal instalment / interest / charges. Hence, any payment

being credited on or after 01.02.2022 in the loan account will be used to pay off the dues outstanding on 01.02.2022.

Assuming that nothing is paid / or there is partial payment (Rs 80) of dues during the month of February, the overdue as on 01.03.2022 will be Rs 20 i.e., Rs 100 - Rs 80. Additionally, an amount of Rs 100 becomes due on 01.03.2022. Now a payment / partial payment into the account on or after 01.03.2022 will be first utilised to pay off the partial due of 01.02.2022 i.e., Rs 20 of February (Rs 100 - Rs 80).

If there is excess amount available (after recovery of Rs 20), then after recovering the dues of 01.02.2022, the remaining amount will be treated as recovery towards due of 01.03.2022.

Disclaimer:

It is to be noted that the content of consumer education as stated above are illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time. In case of any clarifications or assistance, please contact your loan servicing branch.

For detailed guidelines on asset classification and provisioning, please refer to RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances dated 01-10-2021. The asset / SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.
