

## **Consumer Education on SMA/NPA**

### ***Customer Education Literature Document – New RBI guidelines on Income Recognition, Asset Classification and Provisioning (IRACP) for Advances***

RBI vide its circular no. RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 on Scale based regulations dated October 19, 2023 and other circulars previously issued 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications' dated February 15, 2022 and November 12, 2021 have clarified and/or harmonised certain aspects relating to SMA / NPA classification dates, dates of overdue, etc. with a view to bring about uniformity and common understanding regarding the implementation of the guidelines on IRACP in a harmonised manner.

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.

- **NBFC classify loan accounts as Special Mention Account (SMA) and Non-Performing Asset (NPA) immediately on default. What is the basis of such classification and when will an account be classified as SMA or NPA?**

- NBFC classifies the borrower as SMA/NPA based on the extant Regulatory guidelines and same is explained hereunder:

- **Special Mention Account (SMA):**

Lending institutions will recognize the incipient stress in loan accounts, immediately on default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA / NPA category shall be as follows:

Loans other than revolving facilities		Loans in the nature of cash credit/ overdraft (i.e. other than revolving facilities)	
SMA Sub-categories	Basis for classification*	SMA Sub-categories	Basis for classification*
SMA-0	1- 30 days	SMA-0	1- 30 days
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

\* Principal or interest payment or any other amount wholly or partly overdue

▪ **Non-Performing Asset (NPA):**

Non-Performing Asset shall mean;

- An asset, in respect of which, interest has remained overdue for a period of more than 90 days.
- A term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days.
- a demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days.
- A bill which remains overdue for a period of more than 90 days.

- the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans/advances, which facility remained overdue for a period of more than 90 days.
- Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days.
- The lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.
- in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset.

**Provided** that in the case of lease and hire purchase transactions, an NBFC shall classify each such account on the basis of its record of recovery.

- **What is 'Due' & 'Overdue' and how are they different? When will accounts be flagged as overdue?**
  - NBFC use these terms to denote principal / interest / any charges levied on the loan account as under:
    - Due: Means 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.
    - Overdue: 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 company under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the NBFC and its customer.
  - Borrower accounts are to be flagged as overdue by the lending institutions as part of the day-end processes for the due date, irrespective of the time of running such processes.

- **What is days past due (DPD)?**

- It is the number of days for which your account has remained in overdue status.
- For example, if on the due date, full dues are not received by **AFPL** before its day-end processes are run, the account shall become overdue by 1 day (that is 1 DPD). Accounts at 1 DPD are also called as SMA-0.
- The customer needs to ensure that all payments due are received & realized by **AFPL** before its day-end processes are run on or before the due date. Further, if the due date falls on a non-working day, the borrower has to ensure that the repayment is made on or before the due date.

- **At what periodicity does the Bank carry out the asset classification of accounts as SMA/NPA?**

- The Classification of borrower accounts as Special Mention Account (SMA) as well as Non-Performing Asset (NPA) shall be done as part of the day-end process for the relevant date. The SMA or NPA classification date shall be the calendar date for which the day end process is run.

- **When will upgradation of accounts classified as NPAs happen?**

- Loan accounts classified as NPAs are upgraded to 'Standard' asset only if the entire arrears of interest and principal pertaining to all the credit facilities are paid by the borrower.
- Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

- **How many instalments is mandatory to be paid for removal of account from NPA?**

- Borrower must pay the total overdue including principal and interest with charges of all the non-paid instalments.

- **How does SMA/NPA classification happen at borrower level or loan level?**

- SMA/NPA reporting at borrower level is as per regulatory guidelines and thus, overdue in any one account of the borrower will result in reporting of the borrower as SMA or NPA, as the case may be.

- **What is the impact on the borrower if the account is slipped to SMA/NPA and what is the effect of NPA account on the credit rating?**

- As per the extant regulatory guidelines, the company has to report the account as SMA/NPA to RBI and also reporting in Credit Information Bureau (India) Limited (CIBIL) from time to time.
- Credit report will reflect the overdue amount, which may impact the credit score negatively, eventually creating hindrance for the availing further credit facility from any Banks and Financial institutions.

- **When will an account move into SMA or NPA? Can this be explained with an illustrative example?**

- **Example:**
  - If due date of a loan account is **March 31, 2021**, and full dues are not received before the lending institution runs the day-end process for this date, **the date of overdue shall be March 31, 2021** and will be tagged as SMA-0.
  - If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process **on April 30, 2021** i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be **April 30, 2021**.
  - Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on **May 30, 2021** and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on **June 29, 2021**.
- Detailed illustrative example considering different scenarios i.e. the movement of an account to SMA and further to NPA based on delay / non-payment of dues and subsequent upgrade to Standard category at day end process:

<b>Due date of payment</b>	<b>Payment date</b>	<b>Particulars</b>	<b>DPD</b>	<b>Status</b>	<b>Date of default</b>
01.01.2023	01.01.2023	Entire dues paid up to 01.01.2023	0	NIL	N.A.

01.02.2023	01.02.2023	No payment or Part payment of dues of 01.02.2023	1	SMA-0	01.02.2023
01.02.2023	02.02.2023	No payment or Part payment of dues of 01.02.2023	2	SMA-0	01.02.2023
01.03.2023		Dues of 01.02.2023 not fully paid. 01.03.2023 is also due at EOD 01.03.2023	29	SMA-0	01.02.2023
		Dues of 01.02.2023 fully paid. Dues of 01.03.2023 not paid/partly paid at EOD 01.03.2023	1	SMA-0	01.03.2023
		No payment of full dues of 01.02.2023 and 01.03.2023 at EOD 03.03.2023	31	SMA-1	01.02.2023
01.04.2023		No payment of full dues of 01.02.2023, 01.03.2023 and amount dues on 01.04.2023 at EOD 01.04.2023	60	SMA-1	01.02.2023
		No payment of dues from 01.02.2023 till	61	SMA-2	01.02.2023

		01.04.2023 at EOD 02.04.2023			
01.05.2023		No payment of dues from 01.02.2023 till 01.05.2023 at EOD 01.05.2023	90	SMA-2	01.02.2023
		No payment of dues of 01.02.2023 till 01.05.2023 at EOD 02.05.2023	91	NPA	02.05.2023
01.06.2023	01.06.2023	Dues fully paid of 01.02.2023 at EOD 01.06.2023	93	NPA	02.05.2023
01.07.2023	01.07.2023	Entire dues of 01.03.2023 and 01.04.2023 paid at EOD 01.07.2023	62	NPA	02.05.2023
01.08.2023	01.08.2023	Paid entire dues of 01.05.2023 & 01.06.2023 at EOD 01.08.2023	32	NPA	02.05.2023
01.09.2023	01.09.2023	Paid entire dues of 01.07.2023 and 01.08.2023 at EOD 01.09.2023	1	NPA	02.05.2023

01.10.2023	01.10.2023	Paid entire dues of 01.09.2023 and 01.10.2023	0	Standard account with no overdue	Standard from 01.10.2023
------------	------------	---	---	---	--------------------------------

- **Disclaimer:**

The examples quoted are illustrative and not exhaustive in nature and relate to general scenarios. The IRACP norms and clarifications issued by the RBI will prevail for implementation and may be amended from time to time by the RBI.

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. The asset / SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.