



Consumer Education Literature on SMA and NPA Classification

1. Introduction:

This document, in compliance with RBI Circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications' Ref : RBI/2022-23/15 DOR.STR.REC.4/21.04.048/2022-23 dated

01/04/2022, is uploaded to facilitate the consumer to have awareness on the concept of overdue, SMA and NPA classification.

2. Overdue and Date of Overdue:

Any amount due to the Bank under any credit facility shall be treated as overdue if it is not paid on the due date fixed by the Bank. Borrower accounts shall be flagged as overdue by the Bank as part of the day-end process for the due date and the date of overdue shall be the calendar date for which the day-end process is run. Example: If the due date of a loan account is March 31, 2022, and full dues are not received before the Bank runs the day- end process for this date, the date of overdue shall be March 31, 2022.

3. 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 banks to initiate timely remedial actions to prevent their potential slippages to NPAs. Classification of borrower accounts as SMA shall be done as part of day-end process for the relevant date and the SMA classification date shall be the calendar date for which the day-end process is run.



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Classification of borrower accounts as SMA shall be done as part of day-end process for the relevant date and the SMA classification date shall be the calendar date for which the day- end process is run.

The basis for classification of SMA categories shall be as follows:

A) Loan Accounts:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

Example:

If overdue date of a loan is March 31, 2023, the account will be in SMA0 category up to 30 days, i.e., 29/04/2023.

If it continues to remain overdue, then this account shall be classified as SMA1 upon running day-end process on April 30, 2023 and the date of SMA1 classification shall be 30/04/2023. If the account still continues to remain overdue, it shall be classified as SMA2 upon running day-end process on 30/05/2023, i.e., upon completion of 60 days of being continuously overdue.



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B) Revolving credit facilities like Cash Credit / Overdraft limits:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue; Stock Statement for Drawing Power not submitted; Non Renewal between
SMA-1	31-60 days
SMA-2	61-90 days

Example: If a CC/OD account is overdrawn on 31/03/2023 and the overdrawn status continues, it will be classified as SMA1 upon running day-end process on April 30, 2023 and the date of SMA1 classification shall be 30/04/2023. Similarly, if the account continues to remain overdrawn, further, it will be classified as SMA2 upon running day-end process on 30/05/2023.

4. Classification as Non-Performing Assets (NPA):

Classification of borrower accounts as NPA shall be done as part of day-end process for the relevant date and NPA classification date shall be the calendar date for which the day-end process is run.

A Non-Performing Asset (NPA) is a loan or an advance where;

- i. interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC),
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. the instalment of principal or interest thereon remains overdue for two crop seasons



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for short duration crops, v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

*Out of Order Status:

An account shall be treated as “Out of Order” if:

- i) The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit / drawing power for 90 days, or
- ii) The outstanding balance in the CC/OD account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days, or
- iii) The outstanding balance in the CC/OD account is less than the sanctioned limit / drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Example:

If the overdue date of a loan is March 31, 2023 and it continues to remain overdue, the account will be classified as NPA upon running day-end process on 29/06/2023 and the date of NPA shall be 29/06/2023.

5. Accounts with temporary deficiencies:

a. Bank shall ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the bank for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.



b. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

c. Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

6. Upgradation of accounts classified as NPAs:

The loan accounts classified as NPAs may be upgraded as

'standard' asset only if entire arrears of interest and principal are paid by the borrower. In case of borrowers having more than one credit facility from a bank, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases continue to be applicable.

7. Impact to Borrower due to Non-repayment of credit facilities on time:

Your missed payments / default will be recorded on your credit report which could affect your credit score and make it harder for you to access financial products in the future.



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Disclaimer:

Please note that that the aforesaid examples are shown to cover common scenarios of SMA/NPA classification and that of the IRACP norms. The examples are only illustrative and not exhaustive in nature and clarifications provided by RBI on the subjects referred above shall prevail. In case of any clarifications or assistance, you may contact our branch officials.

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 April 1, 2022. The asset / SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.