

CUSTOMER EDUCATION LITERATURE: FAQs ON INCOME
RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING
NORMS – SPECIAL MENTION ACCOUNTS (SMA) AND NON-
PERFORMING ASSETS (NPA)

1. What is the meaning of the term “Dues”?

The term “Dues” 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.

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 on or before the period stipulated as per the terms of sanction of the credit facility.

3. What is “Overdue” in context of a loan with the bank?

Any amount due to the bank under any credit facility is ‘Overdue’ if it is not paid on or before the due date fixed by the bank.

4. What is a Stressed Account?

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

5. What is a Special Mention Account (SMA)?

A loan account showing symptoms of stress as evidenced by a default in payment of dues will be classified as “Special Mention Account” (SMA). Such accounts if not regularized within 90 days gets classified as “Non Performing Asset” (NPA).

6. How SMA are categorized?

SMAs are classified under the following sub-categories as under:

| Loans other than revolving facilities | | Loans in the nature of cash credit/overdraft | |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SMA Sub-categories | Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between: | SMA Sub-categories | Basis for classification - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of: |
| SMA 0 | Upto 30 days | NA | |
| 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 |

7. What are Non-Performing Assets (NPA)?

In a credit facility/ies where stress /delinquency/short comings as indicated below are observed, such borrowal accounts are classified as Non-Performing Asset (NPA):

- a) Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- b) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- c) Agricultural Loans: The instalment of principal or interest thereon remains overdue for two crop seasons in respect of short duration crops and remains overdue for one crop season in respect long duration crops.
- d) The account remains 'out of order', in respect of an Overdraft / Cash Credit (OD / CC) facility as under:
 - 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 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.'
(Note: The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account shall be inclusive of the day for which the day-end process is being run by the bank.)
- e) 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.
- f) Where Loans/Limits have been sanctioned against the Security of Stock & Book debts, and in such cases, if the position of such Stock & Book debts is not submitted to the Bank to determine the Drawing Power, the outstanding in the account based on the drawing power calculated from Stock & Book Debts statement older than three months would be deemed as 'irregular' and, if such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

8. Give Examples for classification of a loan as SMA-0, SMA-1, SMA-2 and NPA:

8.1 In respect of the accounts where EMI/Instalments are payable:

Example: If 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 overdue shall be March 31, 2022, and the account will be classified as SMA 0 as on 31.03.2022. If it continues to remain overdue, then this account shall get tagged as SMA 1 upon running day-end process on April 30, 2022, i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA1 classification for that account shall be April 30, 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA 2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day -end process on June 29, 2022.

8.2 In respect of account in the nature of revolving facilities like cash credit/overdraft the account turns into an NPA when:

- 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 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.

(Note: The 'previous 90 days period' for the determination of 'out of order' status of CC/OD account shall be inclusive of the day for which the day-end-process is being run by the bank).

8.3 Renewal Pending:

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 bank 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.

If the due date for renewal is 31st March 2022 and if the limit is not renewed till 26thSeptember 2022, such account will be classified as NPA during day end process run on 26thSeptember 2022.

8.4 Non Submission of Stock & Book Debt Statement

If a CC/OD account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate lenders to determine drawing power under the account. The outstanding in the account based on the drawing power calculated from the stock & book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

9. At what periodicity the bank undertakes the classification of Accounts as SMA or NPA?

Bank undertakes the process of classification of Accounts as SMA/NPA on daily basis during the day-end process.

10. Whether all loan accounts of the borrower is classified as NPA if one of his 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.

11. Whether amount paid/deposited during the day is considered during the NPA making process?

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

12. 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 and rectification of attendant irregularities relating to Review/Renewal & Stock & book debts of the borrowal account.

13. What is impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines bank has to report Stress/Default/NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time which impact the credit history of the borrowers and attendant repercussions.

(Note: It is to be noted that the content of consumer education as state above is illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time)

Should you require any clarifications please write to us at indiahelpdesk@emiratesnbd.com or call on our office contact number +91 22 6153 2300. You can also call your Relationship/Trade Managers during working days.

We look forward to continuing to serve you, as always.