



Customer Education Literature

Illustrations on certain terms used in relation to our credit/loan facility

Ref: Prudential norms on Income Recognition, Asset Classification and provisioning pertaining to Advances – Clarifications (RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22)

With a view to increasing awareness among the borrowers, consumer education literature has been placed explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process.

The examples quoted in this document 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.

Concepts:

1) 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.

2) 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 Bank under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the Bank 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.

3) Accounting method used by Banks to arrive at the number of days overdue for determining the SMA/NPA status:

The Principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the number of days of overdue for determining the sub category of 'Special Mention Account' (SMA) & 'Non Performing Account' (NPA) status (SMA & NPA classification are explained below). The FIFO principle assumes that the oldest outstanding dues in the loan account needs to 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 INR 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 (INR 80) of dues during the month of February, the overdue as on 01.03.2022 will be INR 20 i.e. INR 100 - INR 80.

Additionally, an amount of INR 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. INR 20 of February (INR 100- INR 80).

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

4) Age of oldest Dues:

The age of oldest dues is calculated in days from the date on which the oldest payment is due and continues to remain unpaid. In the above illustration, if the dues relating to 01.02.2022 remain unpaid till 01.03.2022, the age of the oldest dues is calculated as 29 days on 01.03.2022.

5) Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA) :
a. SMA

Bank 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	
SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue	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

b. Non-Performing Asset (NPA):

In accordance with the provisions of the RBI's Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021, Non-Performing Asset (NPA) is a loan or an advance where:

- a. Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan
- c. The account remains 'out of order' as indicated below, in respect of an Overdraft / Cash Credit (OD / CC)
- d. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- e. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
- f. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

6) '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 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.

7) Illustrative movement of an account to SMA category to NPA category based on delay/ non-payment of dues and subsequent upgradation to Standard category at day end process:

	Payment Date	Payment covers	Age of oldest dues in days	SMA / NPA Categorizations	SMA since Date /SMA class date	NPA Categorization	NPA Date
01.01.2022	01.01.2022	Entire dues upto 01.01.2022	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA -0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA -0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA -1	01.02.2022 / 03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.03.2022 not fully Paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022, 01.03.2022 and amount due on 01.04.2022 at EOD 01.04.2022	60	SMA 1	01.02.2022 / 03.03.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA 2	01.02.2022 / 02.04.2022	NA	NA

01.05.2022		No payment of dues of 90	SMA 2	01.02.2022 till 01.05.22 at EOD 01.05.2022	01.02.2022 /02.04.2022	NA	NA
		No payment of dues of 91	NPA	01.02.2022 till 01.05.2022 at EOD 02.05.2022	NA	NPA	02.05.2022
01.06.2022	06.01.06.2022	Fully Paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	NA	NPA	02.05.2022
01.07.2022	07.01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NPA	02.05.2022
01.08.2022	08.01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	53	NPA	NA	NPA	02.05.2022
01.09.2022	09.01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NPA	02.05.2022
01.10.2022	10.01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with No Overdues	NA	NA	STD from 01.10.2022

7) SMA/NPA classification

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.

9) Upgradation of accounts:

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. 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 per the specific regulatory circular will continue to be applicable.