



SMA/NPA CLASSIFICATION NORMS

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As per RBI's notification on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications ('RBI Circular') dated November 12, 2021, norms of NPA have been revised.

• **Key Highlights of revised NPA norms:**

1. The timelines for **Special Mention Account (SMA)** categorization have been modified, the overdue timeline for SMA 0, SMA 1 and SMA 2 shall be upto 30, more than 30 upto 60 and more than 60 upto 90 days. Please refer to the note below for details.
2. 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. The said SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure
3. Loan accounts classified as NPAs may be upgraded as '**standard**' assets only if entire arrears of interest and principal are paid by the borrower.
4. In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'
5. If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed

1. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

- RBI circular dated June 7, 2019 on 'Prudential Framework for Resolution of Stressed Assets' requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA), the basis for classification of SMA categories and NPA shall be as follows:

Categories	Basis for Classification – Instalment or any other amount overdue	Example – Days past dues as on 1 st April 2021
SMA 0	01 – 30 Days	01 April 2021 to 30 April 2021
SMA 1	31 – 60 Days	01 May 2021 to 30 May 2021
SMA 2	61 – 90 Days	31 May 2021 to 29 June 2021
NPA	90 days and beyond	30 June 2021 and beyond

- 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.

Example:

1. *If due date of a loan account is April 1, 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 April 1, 2021 then the loan account shall be tagged as SMA-0*
2. *If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on May 1, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be May 1, 2021.*
3. *Similarly, if the account continues to remain overdue, it shall get tagged as SMA2 upon*

running day-end process on May 31, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 30, 2021.

- The instructions on SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure of the lending institution.

** If full dues are not received before the lending institution runs the day-end process on EMI due date irrespective of the time of running such processes, the date will be date of overdue*

2. Upgradation of accounts classified as NPAs

- Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
- If the interest or principal remains overdue for a period 90 days or three months and above the loan account is classified as a Non-Performing Asset (NPA). Once an asset is classified as NPA, it will move back to 'Standard' category if the DPD (days past due) count comes to '0' DPD.
- Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

3. Income recognition policy for loans with moratorium on payment of interest

- In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'.

• Frequently Asked Questions (FAQs)

1. What are stressed assets?

- Stressed assets = Non-performing Assets (NPAs) + restructured assets + written-off loans.

2. What are Non-performing Assets (NPAs)?

- Non-Performing Asset shall mean:
 - An asset, in respect of which, interest has remained overdue for a period of 90 days or more;
 - A term loan inclusive of unpaid interest, when the instalment is overdue for a period of 90 days or more or on which interest amount remained overdue for a period of 90 days or more;
 - a demand or call loan, which remained overdue for a period of 90 days or months or more from the date of demand or call or on which interest amount remained overdue for a period of 90 days or more;
 - A bill which remains overdue for a period of 90 days or more;
 - The interest in respect of a debt or the income on receivables under the head 'other current assets' in short-term loans/advances, which facility remained overdue for a period of 90 days or more;
 - Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of 90 days.

3. What are Restructured Assets?

- Restructured loans/ assets are loans of which the terms and conditions have been modified for a

specific account. (like repayment period increased, interest rate reduced, EMI, reduction, loan converted into equity etc.)

4. What are written-off loans?

- Written-off loans are the loans (NPAs) that have been taken off from the balance sheet to clean off the books of the entity.

5. 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:
 - a. 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.
 - b. 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.

6. What is "Days Past Due (DPD)"

It indicates whether the customer have been consistent in his(her) repayments and if (s)he have missed any, how many instalments customer has missed and by how many days. The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify the loan account as NPA. In case the due date and billing date are different, the former would be considered for the purpose of calculating the DPD (days past due).

7. How NPA tag can be removed from any account?

- To lift NPA stamping, the borrower must make the payment of the principal and interest with levied charges on the account so that the NPA stamping can be removed from the account and the asset can be reclassified as standard asset.

8. How many instalments is mandatory to pay for removal of NPA stamping?

- The loan account holder must pay the total outstanding including principal and interest with charges of all the non-paid instalments.

9. What is the effect of an NPA account on the credit rating?

Credit report will reflect the outstanding amount, which may impact the credit score negatively, eventually creating hindrance for the availing further credit facility from any Banks and Financial institutions. This policy document along with FAQ will be placed on the company's website for customer education and information. The same information is to be provided to the customer in the loan documents.

This document shall be subject to periodic review at least annually in accordance with any regulatory or statutory requirement and shall be approved by the Board.