

# Consumer Education on NPA / SMA Norms

## Asset Classification Norms

The bank classifies loans accounts as Non-Performing Assets (NPA) /Special Mention Accounts (SMA) as per norms given below

## Definition of Non-Performing Asset

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 defined 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 for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction

## Out of order-

A Cash credit / Overdraft (CC / OD) account would be considered 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.

### **NPA classification on account of non-renewal of CC/OD limits/ non-submission of stock statements**

The bank also classifies a CC/OD account as NPA if limits are not renewed within 180 days from the due date.

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 and such an account will be classified as NPA after 90 days from the date of irregularity.

### **Credit Card Accounts**

A credit card account will be treated as NPA if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the payment due date mentioned in the statement.

### **Advances against Term Deposits, NSCs, KVPs/IVPs**

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies will not be treated as NPAs only if stipulated margin is maintained in the accounts. However, advances against gold ornaments, government securities and all other securities are not covered by this exemption.

### **Project loans**

DCCO shall be documented in the appraisal note by the bank during sanction of the loan. Bank may restructure project loans and retain the "Standard" Asset Classification, by way of revision of DCCO without classifying the account as NPA, subject to regulatory guidelines. A project loan would be classified as NPA as per record of recovery (90 days overdue) or if project has not commenced operations by stipulated DCCO / deferred DCCO or DCCO is extended beyond the regulatory permissible periods or DCCO extensions are not as per regulatory conditions.

### **Overdue**

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

### **Special Mention Account (SMA)**

An account/ facility would be classified as Special Mention Account (SMA) category if the amount due and payable to bank is not paid by borrower on due date. Basis aging of overdues, the bank reports the borrowers under following categories of SMA

Loans other than revolving facilities		Loans in the nature of revolving facilities like 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		
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

The bank flag the borrower accounts as overdue as part of day-end processes for the due date, irrespective of the time of running such process. Similarly, classification of borrower accounts as SMA as well as NPA will be done as part of day-end process for the relevant date and the SMA or NPA classification date will be the calendar date for which the day end process is run. In other words, the date of SMA / NPA will reflect the asset classification status of an account at the day-end of that calendar date.

### Examples for SMA/NPA

#### Term loans

If due date of a loan account is March 31, 2021, and full dues are not received by the bank before day-end of March 31, 2021, the account will be considered as overdue with reference to due date and will be tagged as SMA 0. If account continues to remain overdue and all dues are not regularized by April 30, 2021, then account gets tagged as SMA-1 as on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. If the account continues to remain overdue, account gets tagged as SMA-2 as of May 30, 2021, and if continues to remain overdue further, accounts gets classified as NPA at day end on June 29, 2021.

#### CC/OD/DLOD accounts:

(i) In a CC or OD or DLOD account, if outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days -say from March 31, 2021, the account gets tagged as SMA 1 as of April 30, 2021 i.e. upon completion

of 30 days of being continuously in excess. If the account continues to be remain continuously in excess, the account gets tagged as SMA-2 on May 30, 2021. If the account continues to remain in excess, account gets classified as NPA at day end of June 29, 2021.

(ii) In addition to (i) above, a CC or OD or DLOD account may get classified as NPA if outstanding balance in the 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.

For example, if there are no credits continuously for 90 days say from Jan 01, 2021 to March 31, 2021 (both days inclusive) or credits are not enough to cover the interest debits from Jan 01, 2021 to March 31, 2021 (both days inclusive), the account gets classified as NPA as of March 31, 2021 at day end day.

#### **NPA Classification on account of restructuring**

Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility / release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months. Any restructuring of facility on account of financial difficulty of borrower will result classification of account as NPA, unless otherwise specified.

#### **SMA/NPA classification at borrower level**

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

#### **Upgradation of accounts classified as NPAs**

The bank would be upgrading the loan accounts classified as NPAs as 'standard' asset only if entire arrears of interest and principal are paid. Upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc. will be governed by specific regulations.

For detailed guidelines in asset classification and provisioning, please refer to RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances dated October 1, 2021 and Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021. The above asset / SMA classification norms are subject to changes as per regulatory instructions issued from time to time.