

Consumer/Borrower Education Literature on SMA and NPA Classification, Upgradation, and concept of date of Overdue

RBI has issued Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021 (‘RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021- 22’) (“Clarifications”), which clarifies certain provisions of the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (“Prudential Norms”). The Clarifications further clarify certain aspects of the extant Prudential Norms applicable to all lending institutions.

“Clarification on “Overdue”

All loans are to be repaid by due date. Any outstanding not paid by due date shall be treated as an “Overdue” and will be classified in line with the Prudential Norms. All such classifications will take effect as part of the day end process run by Satya Micro Housing Finance Private Limited (“SMHFPL/Company”).

Below are the extant RBI guidelines on Asset Classification basis which all overdues will be classified, and the relevant classifications.

Classification as Special Mention Account (SMA)

The Prudential Norms requires the lenders to recognise incipient stress in borrower accounts, immediately on default, by classifying them as SMAs. An account/ facility would be classified as SMA category if the amount due and payable to SMHFPL is not paid by the borrower by the due date. Basis aging of overdues, SMHFPL reports the borrower under the following SMA categories:

Classification as SMA and Applicable Categories

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

Classification as Non-Performing Asset (NPA)

NPA : A Loan/advance shall be classified as an NPA where;

- interest applied at a specified date in respect of a term loan remains overdue for more than 90 days. Classification of borrower account as NPA shall be done as part of day end process of the relevant date and NPA classification date shall be the calendar date for which day end process is run.
- the account remains ‘out of order’ as indicated below, in respect of an Overdraft (OD) account.
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.
- In case of interest payments, if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.
- In respect of ODA/working capital accounts, where drawings were permitted based on drawing power statements, any irregular drawings (i.e., in excess of drawing power) permitted for a continuous period of 90 days.
- Accounts where regular/adhoc credit limits have not reviewed/renewed/regularized within 180 days of the due date of such review/date of adhoc sanction.

Stage wise NPA movement

Category	Definition
Standard Assets	Any asset which is not an NPA
Sub-standard Assets	An asset which has remained NPA for a period less than or equal to 12 months.
Doubtful Assets	An asset which has remained in the sub- standard category for a period of more than 12 months. Early classification of an asset as doubtful may be done where recoverability of an asset is in doubt.
Loss Assets	A loss asset is one where loss has been identified by SMHFPL, but the amount has not been written off wholly.

Illustrative Example explaining above concepts

If due date of a loan account is March 31, 2021, and full dues are not received before SMHFPL runs the day-end process for this date, the date of overdue shall be March 31, 2021, and the account shall be classified as SMA-0. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021, i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA- 2 upon running day-end process on May 30, 2021, and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

Clarification regarding definition of “Out of Order” Accounts

It is clarified that an account shall be treated as “Out of Order” on a continuous basis if:

- The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days; or
- 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.

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.

Upgradation of Accounts classified as NPAs

A loan account classified as NPA may be upgraded as “Standard” asset only if the entire arrears of interest and principal are paid by the borrower.

With regard to upgrading 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 shall continue to be applicable.

For example: If on Jun 30, 2021, or any day thereafter, client repays full amount (i.e. Principle + interest), account shall be upgraded to “Standard” account, however, if only partial amount is paid, account will continue to remain as NPA.
