

The Vijay Co Operative Bank Ltd



Consumer Education Literature on SMA and NPA Classification

1. Introduction

This document, in compliance with RBI Circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications' Ref: RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021, is uploaded to facilitate the consumer to have awareness on the concept of overdue, SMA and NPA classification.

The Consumer Education Literature with details/explanations on the concepts of SMA/NPA with clarifications and illustrative examples on due dates are furnished herewith.

2. General Information

2.1 Dues:

Indicates 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.

2.2 Overdue:

The demand out of the loan amount which customer fails to repay on time is known as the Loan Overdue Amount, i.e., the Loan Overdue Amount is the amount left unpaid even after the due date of payment.

In other words, 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.

2.3 Difference between Balance due and overdue.

The "Balance Due" that appears on the Statement of Accounts refer to the total amount that is currently outstanding for the account, while the "Overdue Balance" refers to the balance that has not been paid within the specified agreed period.

2.4 Method of Appropriation of payments into the loan account

The application of 'First in First Out'(FIFO) is in place for appropriation of payments into the borrower account. The Principle of FIFO i.e., 'First In First Out accounting method is applied to arrive at the number of days of overdue for determining the SMA/NPA classification. In FIFO method, the oldest outstanding dues in the loan account will be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

For example: If in any loan account as on 01.01.2023 there are no Overdues and an amount of Rs. A is due for payment towards principal instalment/interest any payment being credited on or after 01.01.2023 in the loan account will be appropriated towards the dues outstanding on 01.01.2023. If nothing is paid/or there is partial payment (Rs B) of dues on 02.02.2023, the overdue as on 01.02.2023 will be Rs. A-B.

Additionally, an amount of Rs C becomes due as on 01.02.2023. Now any payment partial payment into the account on or after 01.02.2023 will be first utilized to pay off the partial due of 01.01.2023 (A-B). If there is more recovery than A-B then after recovering dues of 01.01.2023, the remaining amount will be treated as recovery towards due of 01.02.2023.

2.5 NPA/SMA Classification will be Borrower wise and not facility wise.

All the facilities granted by the bank to a borrower and investment in all the securities issued by the borrower will be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

3. Definitions

3.1 Special Mention Account (SMA)

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of his/her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. Early recognition of such accounts will enable banks to initiate timely remedial actions to prevent their potential slippages to NPAs.

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

Loans other than revolving facilities	
SMA Sub-categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue
SMA-0	1 to 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

Loans in the nature of revolving facilities like cash credit/overdraft	
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-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

3.2 Non-Performing Asset:

A nonperforming 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 indicated at paragraph 3.2.1 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. In case of Agricultural advances, the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops / the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- v. When the account is restructured. Restructuring is an act in which lending institutions grant a concession to the borrower under financial difficulty for economic or legal reasons. 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.
- vi. non-commencement of commercial operations within the scheduled date and the grace period permitted by the regulator.
- vii. Detection of fraud in the loan account.
- viii. Non-review/renewal of working capital credit limits within 180 days from the due date of previous sanction.

Advances against term deposits, National Savings Certificates (NSCs) eligible for surrender, Indira Vikas Patra (IVPs), Kisan Vikas Patra (KVPs) and life policies are not identified as NPAs, provided adequate margin is available in the accounts.

3.2.1 'Out of Order' status:

Cash credit/Overdraft (CC/OD) account will be classified as NPA under '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.

4. Asset Classification Process

4.1 Asset Classification will be a part of day end process:

It is further clarified that borrower accounts will be flagged as overdue by the bank as part of day-end processes for the due date, irrespective of the time of running such processes. 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 shall reflect the asset classification status of an account at the day-end of that calendar date.

Example:

If due date of a loan account is March 31, 2023, and full dues are not received before bank runs the day-end process for this date, the date of overdue shall be March 31, 2023. If it continues to remain overdue, then this account will be tagged as SMA-1 upon running day-end process on April 30, 2023 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account will be April 30, 2023.

Similarly, if the account continues to remain overdue, it will be tagged as SMA-2 upon running day-end process on May 30, 2023 and if continues to remain overdue further, it will be classified as NPA upon running day-end process on June 29, 2023.

4.1.1 Example for SMA/NPA status

4.1.1.1 Loan facilities other than in the nature of CC/OD accounts:

Scenario 1: All dues are paid.

Date	Due	Amount Credited	Overdue	DPD	Status	Remarks
01.01.2023	100.00	100.00	0.00	0	Standard/ Regular	No Overdue

Scenario 2:

Illustrative movement of an account to SMA category to NPA category based on delay/nonpayment of dues and subsequent upgradation to Standard category at day end process: (*DPD- Days Past Due)

Date	Payment Date	Payment Covers upto	DPD *	Status	SMA Since Date/SMA Class Date	NPA	NPA Date
01.02.23	01.02.23	Partly paid dues of	1	SMA-0	01.02.2023	No	NA
01.02.23	02.02.23	Partly paid dues of	2	SMA-0	01.02.2023	No	NA
01.02.23	Not Paid	Not Paid	1	SMA-0	01.02.2023	No	NA

01.03.23	Not Paid	Dues of 01.02.23 not fully paid & dues of 01.03.23 also due at EOD 01.03.23	29	SMA-0	01.02.2023	No	NA
	01.03.23	Dues of 01.02.23 fully paid, Due for 01.03.23 not paid at EOD 01.03.23	1	SMA-0	01.03.2023	No	NA
	Not Paid	No payment of full dues of 01.02.23 and 01.03.23 at EOD 03.03.23	31	SMA-1	01.02.2023/ 03.03.2023	No	NA
	01.03.23	Dues of 01.02.2023 fully paid, Due for 01.03.2023 not fully paid at EOD	1	SMA-0	01.03.2023	No	NA
01.04.23	Not paid	No payment of dues of 01.02.2023, 01.03.2023 and amount due on 01.04.2023 at EOD 01.04.2023	60	SMA-1	01.02.2023/ 03.03.2023	No	NA
	Not Paid	No payment of dues of 01.02.2023 till 01.04.2023 at EOD 02.04.2023	61	SMA-2	01.02.2023/ 02.04.2023	No	NA
01.05.23	Not Paid	No payment of dues of 01.02.2023 till 01.05.2023 at EOD 01.05.2023	90	SMA-2	01.02.2023/ 02.04.2022	No	NA
	Not Paid	No payment of dues of 01.02.2023 till 01.05.2023 at EOD 02.05.2023	91	NPA	NA	Yes	02.05.23
01.06.23	01.06.23	Fully Paid dues of 01.02.2023 at EOD	93	NPA	NA	Yes	02.05.23
01.07.23	01.07.23	Paid entire dues of 01.03.2023 & 01.04.2023 at EOD 01.07.2023	62	NPA	NA	Yes	02.05.23
01.08.23	01.08.23	Paid entire dues of 01.05.2023 & 01.06.2023 at EOD 01.08.2023	32	NPA	NA	Yes	02.05.23
01.09.23	01.09.23	Paid entire dues of 01.07.2023 & 01.08.2023 at EOD 01.09.2023	1	NPA	NA	Yes	02.05.23
01.10.23	01.10.23	Paid entire dues of 01.09.2023 & 01.10.2023	0	Standard Account with No Overdues			W.e.f 01.10.23

4.1.1.2 Loan facilities in the nature of CC/OD accounts:

Scenario 1: Out of order (CC/OD accounts) - Not enough credits in the account in last 90 days

Date	Interest Debit	Amount Credited	Out of Order	A/c Classified As NPA	Remarks
31.03.2023	100.00	0.00			
20.04.2023	0.00	100.00			
30.04.2023	80.00	0.00			
05.05.2023	0.00	120.00			
31.05.2023	130.00	0.00			
28.06.2023	0.00	110.00	No	No	Int. Debit in last 90 days: Rs. 310.00 Credit in Last 90 days Rs. 330.00

Scenario 2: Out of order (CC/OD accounts) - Not enough credits in the account in last 90 days

Date	Interest Debit	Amount Credited	Status	Remarks
31.03.2023	100.00	0.00		
29.04.2023	0.00	100.00		
30.04.2023	110.00	0.00		
15.05.2023	0.00	110.00		
31.05.2023	150.00	0.00		
28.06.2023	0.00	0.00	NPA	Int. Debit in last 90 days: Rs. 360.00 Credit in Last 90 days Rs. 210.00

4.2 Upgradation of accounts classified as NPAs:

The loan accounts classified as NPAs will be upgraded as 'standard' asset only if entire arrears of interest and principal 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 specified for such cases continue to be applicable.

4.3 Impact to Borrower due to non-repayment of loan in time

Your missed payments / default will be recorded on your credit report which could affect your credit score and make it harder for you to access financial products in the future.

4.4 Non-Review/Renewal of Credit Limits

Credit Limits needs to be renewed/reviewed within 3 months from the due date. If not reviewed/renewed within 90 days, accounts will be treated as NPA.

5. Disclaimer:

Please note that that the aforesaid examples are shown to cover common scenarios of SMA/NPA classification and that of the IRACP norms. The examples are only illustrative and not exhaustive in nature and clarifications provided by RBI on the subjects referred above shall prevail. In case of any clarifications or assistance, please reach us at our Phone Banking numbers or contact your Nearest Branch.

For detailed guidelines on asset classification and provisioning, please refer to RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances dated April 1, 2022. The asset/SMA classification norms are subject to changes as per regulatory guidelines issued from time to time.