

Consumer Education Literature: FAQs on Income Recognition, Asset Classification and Provisioning (IRACP) Norms related to Advances¹

1. What is the meaning of the term ‘Dues’?

Dues mean 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. What is the meaning of the term ‘Overdues’?

Overdues 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 the due date fixed by the bank.

3. What is Stressed account?

Borrowers are required to pay the EMI / instalment / interest at periodic intervals as per the terms agreed before availing of the loan. In case such EMI / instalment / interest dues are not paid on or before the due date on agreed terms, such account is called as a “**Stressed account**”.

4. What is SMA?

A Special Mention Account (SMA) is a loan account, showing the symptoms of stress as evidenced by a default in payment of the dues, and/or, in which principal or interest or both are overdue but for a period of less than 90 days.

SMA account categorisation is a precautionary measure to recognize the financial stress early and therefore to take corrective action to contain that stress and prevent the loan account from turning into NPA.

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

Bank is required to recognize the incipient stress in the loan accounts, immediately on default, by classifying the loan accounts as Special Mention Account (SMA). The basis of classification of SMA / NPA Category shall be as follows:

| Loans in the nature of Term Loans <i>(or other than revolving facilities)</i> | | Loans in the nature of cash credit/overdraft <i>(or in the nature of revolving facilities)</i> | |
|--|---|---|--|
| SMA Sub-categories | Basis for classification - Principal or interest 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 |

6. What is NPA?

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 bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iii. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops (*Agriculture loans*),
- iv. the instalment of principal or interest thereon remains overdue for one cropseason for long duration crops (*Agriculture loans*),

¹ As required via Para G of the RBI Circular dated 12 November 2021 titled - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications

- v. the minimum amount due, as mentioned in the monthly credit card statement, is not paid fully within 90 days from the payment due date mentioned in the statement (*Credit Cards*),
- vi. the account remains 'out of order' in respect of an overdraft/cash credit (OD/CC) facility as under:
 - a. the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
 - b. 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.

(Note: The 'previous 90 days period' for determination of 'out of order' status of CC/OD account shall be inclusive of the day for which the day-end process is being run by the Bank.)

- vii. An account where the regular/ ad-hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad-hoc sanction,
- viii. where the loans/ limits have been sanctioned against the security of Stock & Book debts, and, in such cases, if the position of such Stock & Book debts is not submitted to the Bank to determine the Drawing Power, the outstanding in the account based on the Drawing Power calculated from Stock & Book Debts Statement older than three months would be deemed as 'irregular', and, if such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

7. Illustrative movement of an account to SMA category to NPA category based on non-payment of dues at day-end process:

A. For Term Loans:

If due date of a loan account is March 31, 2021, and the full dues are not received before the day-end process for this date, the date of overdue shall be March 31, 2021.

| Due date of payment | Payment covers | Age of oldest dues in days (DPD) | SMA / NPA Categorization | SMA since Date / SMA class date | NPA categorization | NPA Date |
|--|---|----------------------------------|--------------------------|---------------------------------|--------------------|-----------|
| 31.03.2021 | Entire dues paid upto 31.03.2021 | 0 | NIL | NA | NA | NA |
| 31.03.2021 | Dues of 31.03.2021 not fully paid at EOD 31.03.2021 | 1 | SMA-0 | 31.03.2021 | NA | NA |
| 31.03.2021 | Dues of 31.03.2021 not fully paid at EOD 29.04.2021 | 30 | SMA-0 | 31.03.2021 | NA | NA |
| 31.03.2021 30.04.2021 | Dues of 31.03.2021 and 30.4.2021 not fully paid at EOD 30.04.2021 | 31 | SMA-1 | 31.03.2021 / 30.04.2021 | NA | NA |
| 31.03.2021 30.04.2021 | Dues of 31.03.2021 and 30.4.2021 not fully paid at EOD 29.05.2021 | 60 | SMA-1 | 31.03.2021 / 30.04.2021 | NA | NA |
| 31.03.2021 30.04.2021 | Dues of 31.03.2021 and 30.4.2021 not fully paid at EOD 30.05.2021 | 61 | SMA-2 | 31.03.2021 / 30.05.2021 | NA | NA |
| 31.03.2021 30.04.2021 31.05.2021 | Dues of 31.03.2021, 30.4.2021 and 31.05.2021 not fully paid at EOD 28.06.2021 | 90 | SMA-2 | 31.03.2021 / 30.05.2021 | NA | NA |
| 31.03.2021 30.04.2021 31.05.2021 | Dues of 31.03.2021, 30.4.2021 and 31.05.2021 not fully paid at EOD 29.06.2021 | 91 | NPA | NA | NPA | 29.6.2021 |

B. For Credit Card:

| Statement / Payment Flag | Date | Total Amount Due (A) | Min. Amt. Due (B) | Charges (C) | Payment received till Due date (D) | Previous Min. Amt. Due (E) | Total Min. Amt. Due (F = B+E) | DPD on Payment due date (G) | SMA Flag | SMA/NPA Since |
|--------------------------|----------|----------------------|-------------------|-------------|------------------------------------|----------------------------|-------------------------------|-----------------------------|----------|------------------------|
| Statement Date | 12/03/22 | 10,000.00 | 500.00 | - | - | - | 500.00 | 0 | NA | NA |
| Payment Due date | 01/04/22 | | | | 100.00 | | | 1 | SMA - 0 | 01/04/2022 |
| Statement Date | 12/04/22 | 10,400.00 | 995.00 | 500.00 | - | 400.00 | 1,395.00 | 12 | SMA - 0 | 01/04/2022 |
| Payment Due date | 02/05/22 | | | | 700.00 | | | 1 | SMA - 0 | 02/05/2022 |
| Statement Date | 12/05/22 | 10,700.00 | 1,485.00 | 1,000.00 | | 695.00 | 2,180.00 | 11 | SMA - 0 | 02/05/2022 |
| Payment Due date | 01/06/22 | | | | - | | | 31 | SMA - 1 | SMA since 02/05/2022 |
| Statement Date | 12/06/22 | 12,200.00 | 2,035.00 | 1,500.00 | | 2,180.00 | 4,215.00 | 42 | SMA - 1 | SMA-1 since 01/06/2022 |
| Payment Due date | 02/07/22 | | | | - | | | 62 | SMA - 2 | SMA since 02/05/2022 |
| Statement Date | 12/07/22 | 14,700.00 | 3,110.00 | 2,500.00 | | 4,215.00 | 7,325.00 | 72 | SMA - 2 | SMA-2 since 01/07/2022 |
| Payment Due date | 01/08/22 | | | | - | | | 92 | NPA | NPA since 31/07/2022 |
| Statement Date | 12/08/22 | 17,700.00 | 3,735.00 | 3,000.00 | | 7,325.00 | 11,060.00 | 103 | NPA | 31/07/2022 |
| Payment Due date | 01/09/22 | | | | - | | | 123 | NPA | 31/07/2022 |

* Charges will be levied as defined in Most Important Terms & Conditions (*in the above table it is illustrative only*)

Assumptions:

1. Only retail transactions are included in the above illustration.
2. There are no additional purchases done by the customer post the first statement generation.
3. There are no payments from 01/06/2022 onwards.

C. Loans in the nature of revolving facilities like cash credit/overdraft:

- 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'. (Note: The 'previous 90 days period' for determination of 'out of order' status of CC/OD account shall be inclusive of the day for which the day-end process is being run by the lending institution.)

D. Renewal Pending:

Regular and ad-hoc credit limits need to be reviewed / regularised not later than three months from the due date / date of ad-hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the Bank should furnish evidence to show that the renewal / review of credit limits is already on and would

be completed soon. In any case, the delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular / ad-hoc credit limits have not been reviewed / renewed within 180 days from the due date / date of ad-hoc sanction will be treated as NPA.

For example: If the due date for renewal is 31-03-2022 and if the limit is not renewed till 26-09-2022, such account will be classified as NPA during day end process run on 26-09-2022.

E. Non-Submission of Stock & Book Debt Statement:

If a CC / OD account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate the Bank to determine Drawing Power under the account. The outstanding in the account based on the drawing power calculated from stock & Book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

8. At what periodicity the Bank undertakes the classification of accounts as SMA/NPA?

Bank undertakes the process of classification of accounts as SMA/NPA on daily basis during the day-end process.

9. Whether all loan accounts of the borrower are classified as NPA if one of his/her loan account turns NPA?

Yes, NPA classification is borrower wise and not account wise. Hence, if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower will also be classified as NPA.

Example: An individual is having Credit Card, Home Loan, Loan Against Property (LAP), and Gold Loan facility from a Bank. In case the individual is not able to pay the minimum amount due on his credit card within 90 days from the payment due date mentioned in the credit card statement, then this credit card account will be classified as NPA due to the default. Along with this credit card, the individual's other credit facilities - Home Loan, LAP and Gold Loan will also be classified as NPA.

Similarly, if the individual defaults on his Home Loan EMIs and continues to be in default for more than 90 days, this Home Loan account will be classified as NPA and as a result, the individual's other credit facilities - Credit Card, LAP, Gold Loan will also get classified as NPA.

10. Whether any amount paid/deposited during the day is considered during the NPA marking process?

Credits received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credit received subsequently are treated as receipts for the subsequent day. Hence, it is always advised to maintain sufficient funds a day in advance in your bank account through which the loan is being serviced.

11. How borrower accounts are upgraded to regular status after being classified as NPA?

A loan account classified as NPA will be upgraded to Standard Asset only upon regularisation of all the loan accounts of the borrower having arrears and the rectification of attendant irregularities relating to review/renewal & stock & book debts of the borrower account.

In other words, all the loan or credit facility accounts of a borrower will be classified as NPA in case any one of the accounts get classified as NPA and will continue to remain classified as NPA unless the overdues of all the loan accounts or credit facilities are fully repaid by the customer.

12. What is the impact on the borrower if the loan account is slipped to stress/NPA?

As per the regulatory guidelines, Bank has to report Stress / Default / NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time which impact the credit history of the borrowers and attendant repercussions.

13. What is the Appropriation Principle used to determine the number of days overdue for determining the SMA / NPA status? (i.e., 'First in First Out (FIFO)' or 'Last in First Out (LIFO)' principle for appropriation of payments received in the loan accounts (standard or stressed account but non-NPA account))



Please refer to the relevant clauses / illustrations in the loan agreement done between the Bank and the borrower.

Note: It is to be noted that the content of consumer education as stated above is illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time.