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Consumer Education Literature – SMA and NPA Classification

In compliance with RBI circular RBI/2021-2022/125 dated 12 Nov 2021 on IRACP (Income Recognition, Asset Classification and Provisioning pertaining to Advances) norms – point no. G on consumer education, lending institutions are required to place Consumer Education Literature on their websites for increasing awareness among consumers w.r.t concepts of overdue, SMA and NPA classification and upgradation.

Accordingly, the concepts/ clarifications/ illustrative examples on due dates and specification of SMA/ NPA have been detailed out for your ready reference.

Dues: Indicate 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.

Overdue: Indicates 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.

Relevance of the Principle of 'First-In-First Out' (FIFO) in appropriation of payments into the borrower account:

The Principle of FIFO accounting method is relevant to arrive at the No. of days of overdue for determining the SMA/ NPA status. The FIFO principle assumes that the oldest outstanding dues in the loan account needs to 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 01.02.2022 there are no dues and an amount of Rs. 50,000 is due for payment towards principal installment/interest/charges on 01.02.2022. Any payment being credited on or after 01.02.2022 in the loan account will be used to pay off the dues outstanding on 01.02.2022

Assuming that there is a partial payment Rs 10,000/- of dues during the month of February, the overdue as on 01.03.2022 will be Rs 40,000/- (INR 50,000 – INR 10,000)

Additionally, an amount of Rs. 10,000/- becomes due as on 01.03.2022. Now any payment /partial payment received into the account on or after 01.03.2022 will be first utilized to pay off the partial due of 01.02.2022 of INR 40,000/-. If there is more recovery than the INR 40,000/-, then after recovering dues of 01.02.2022, the remaining amount will be treated as recovery towards due of 01.03.2022.

Age of oldest Dues: The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the aforesaid illustration, if the dues relating to 1st February 2022 remain unpaid till 1st March 2022, the age of the oldest dues is reckoned as 29 days on 2nd March 2022.

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

LENDING INSTITUTIONS WILL RECOGNIZE THE INCIPIENT STRESS IN LOAN ACCOUNTS, IMMEDIATELY ON DEFAULT, BY CLASSIFYING THEM AS SPECIAL MENTION ACCOUNTS (SMA). THE BASIS OF CLASSIFICATION OF SMA / NPA CATEGORY SHALL BE AS FOLLOWS: LOANS (OTHER THAN REVOLVING FACILITIES)

LOANS IN THE NATURE OF REVOLVING FACILITIES SUCH AS 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	Up to 30 days	SMA-1	More than 30 days and up to 60 days
SMA-1	More than 30 days and up to 60 days	SMA-2	More than 60 days and up to 90 days
SMA-2	More than 60 days and up to 90 days		

Non-performing Asset:

Non-Performing Asset (NPA) is a loan or an advance where:

- interest and/ or installment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- the account remains 'out of order' as indicated below in respect of an Overdraft/Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops.

'Out of Order' Status:

An account shall be treated as 'out of order' 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.

Illustration:

Date of debit of OD interest: 30 September 2021, 31 October 2021 and 30 November 2021. If there are no credits in the OD account from 2 September 2021 to 30 November 2021 (being 90 days period) or the sum of credits in the OD account is less than the sum of OD interest debited in the previous 90 days (i.e., during the period from 2 September 2021 to 30 November 2021), the account will be classified as NPA on 30 November 2021.

Illustrative movement of an account to SMA category to NPA category based on delay / non-payment of dues and subsequent upgradation to Standard category at day end process:

DUE DATE OF PAYMENT	PAYMENT DATE	PAYMENT COVERS	AGE OF OLDEST DUES IN DAYS	SMA / NPA CATEGORIZATION	SMA DATE SINCE /SMA CLASS DATE	NPA CATEGORIZATION	NPA DATE
01.01.2022	01.01.2022	Entire dues up to 01.01.2022	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA-0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid. On 01.03.2022, there is additional due at EOD 01.03.2022	29	SMA-0	01.02.2022	NA	NA
Scenario 1: –		Dues of 01.02.2022 fully paid off, Due for 01.03.2022 is not fully paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
Scenario 2: –		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA-1	01.02.2022/ 03.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022, 01.03.2022	60	SMA 1	01.02.2022/ 03.03.2022	NA	NA

		and there is an amount due on 01.04.2022 at EOD 01.04.2022					
		No payment of dues of 01.02.2022 till 01.04.22 at EOD 02.04.2022	61	SMA 2	01.02.2022/ 02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.22 at EOD 01.05.2022	90	SMA 2	01.02.2022/ 02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully Paid dues of 01.02.2022 at EOD 01.06.2022 Dues of 01.03.2022 is pending	93	NPA	NA	NPA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 and 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NPA	02.05.2022
01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	NA	NPA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NPA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with No Overdues	NA	NA	STD from 01.10.2022

Disclaimer:

Please note 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, you may contact our branch officials 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.

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