

Consumer Education Literature on SMA and NPA Classification

Following clarification and illustration may kindly be noted in reference to RBI circular No. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 regarding prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated 12th November, 2021.

1. Clarification on '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.

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

Bank 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 in the nature of Term Loans		Loans in the nature of 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

➤ Non-Performing Asset (NPA):

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

- interest and/ or instalment 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,

➤ Clarification regarding definition of 'Out of Order':

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.

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the bank as part of their day-end (EOD) processes for the due date, irrespective of the time of running

such processes. The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

3. Upgradation of accounts classified as NPAs

It is clarified that loan accounts classified as NPAs may 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 shall continue to be applicable.

4. Relevance of the Principle of ‘First In First Out’ (FIFO) in appropriation of payments into the borrower account:

The Principle of FIFO i.e., ‘First In, First Out’ 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 01.02.2021 there are no overdue and an amount of Rs. X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 01.02.2021 in the loan account will be used to pay off the dues outstanding on 01.02.2021.

Assuming that nothing is paid /or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.03.2021 will be Rs .X-Y.

Additionally, an amount of Rs. Z becomes due as on 01.03.2021, Now any payment /partial payment into the account on or after 01.03.2021 will be first utilized to pay off the partial due of 01.02.2021 (Rs X – Rs. Y). If there is more recovery than the Rs X – Rs.Y, then, after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards due of 01.03.2021.

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 2021 remain unpaid till 01.03.2021, the age of the oldest dues is reckoned as 29 days on 02.03.2021.

5. 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	SMA / NPA Categorization	SMA since Date /SMA Class Date	NPA Categorization	NPA Date
01.01.20XX	01.01.20XX	Entire dues upto 01.01.20XX	0	NIL	NA	NA	NA
01.02.20XX	01.02.20XX	Partly paid dues of 01.02.20XX	1	SMA-0	01.02.20XX	NA	NA
01.02.20XX	02.02.20XX	Partly paid dues of 01.02.20XX	2	SMA-0	01.02.20XX	NA	NA
01.03.20XX		Dues of 01.02.20XX not fully paid 01.03.20XX is also due at EOD 01.03.20XX	29	SMA-0	01.02.20XX	NA	NA
		Dues of 01.02.20XX fully paid, Due for 01.03.20XX not paid at EOD 01.03.20XX	1	SMA-0	01.03.20XX	NA	NA

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Due Date of Payment	Payment Date	Payment Covers	Age of Oldest Dues	SMA / NPA Categorization	SMA since Date /SMA Class Date	NPA Categorization	NPA Date
		No payment of full dues of 01.02.20XX and 01.03.20XX at EOD 03.03.20XX	31	SMA-1	01.02.20XX /03.03.20XX	NA	NA
		Dues of 01.02.20XX fully paid, Due for 01.03.20XX not fully paid at EOD 01.03.20XX	1	SMA-0	01.03.20XX	NA	NA
01.04.20XX		No payment of dues of 01.02.20XX ,01.03.20XX and amount due on 01.4.20XX at EOD 01.04.20XX	60	SMA 1	01.02.20XX / 3.03.20XX	NA	NA
		No payment of dues of 01.02.20XX till 01.04.22 at EOD 02.04.20XX	61	SMA 2	01.02.20XX /02.04.20XX	NA	NA
01.05.20XX		No payment of dues of 01.02.20XX till 01.05.22 at EOD 01.05.20XX	90	SMA 2	01.02.20XX /02.04.20XX	NA	NA
		No payment of dues of 01.02.20XX till 01.05.20XX at EOD 02.05.20XX	91	NPA	NA	NPA	02.05.20XX
01.06.20XX	01.06.20XX	Fully Paid dues of 01.02.20XX at EOD 01.06.20XX	93	NPA	NA	NPA	02.05.20XX
01.07.20XX	01.07.20XX	Paid entire dues of 01.03.20XX & 01.04.20XX at EOD 01.07.20XX	62	NPA	NA	NPA	02.05.20XX
01.08.20XX	01.08.20XX	Paid entire dues of 01.05.20XX & 01.06.20XX at EOD 01.08.20XX	32	NPA	NA	NPA	02.05.20XX
01.09.20XX	01.09.20XX	Paid entire dues of 01.07.20XX & 01.08.20XX at EOD 01.09.20XX	1	NPA	NA	NPA	02.05.20XX
01.10.20XX	01.10.20XX	Paid entire dues of 01.09.20XX & 01.10.20XX	0	Standard Account with No Overdues	NA	NA	STD from 01.10.20XX

*Illustrative and not exhaustive. Variation of One-day in case of leap year.