

Annexure

Consumer Education on Prudential norms on Income Recognition, Asset Classification (IRAC)

Dear Customer,

In line with RBI Circular dated 12.11.2021 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances', all concerned borrowers, co-borrowers, guarantors and customers are hereby requested to note the below:

1. What is Due Date/Repayment Date?

The specific date on which the repayment towards installment/interest/other charges, as applicable, become due for a particular loan.

2. What is Default?

Default means non-payment of debt when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.

3. What is Overdue Date?

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.

4. What is SMA?

A special mention accounts (SMA) is a loan asset/account in which principal or interest payment, or both are overdue but for a period of less than 90 days.

5. How the account is classified as SMA, for Cash credit and Term Loan?

Loans other than revolving facilities		Loans in the nature of revolving facilities like 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



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 account remains 'out of order', 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. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

7. What is 'Out of Order' status?

- An account is treated as '**Out Of Order**' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days.
- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period, accounts are treated as '**Out Of Order**'.

The definition of 'out of order', as clarified in the RBI Circular, shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.

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

8. What is the condition for '**Upgradation of accounts classified as NPAs**'?

In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.



9. Illustrate the process of classification of borrowers account as SMA/NPA.

Overdue Period of Principal/Interest/Any other charges	SMA/NPA Classification	SMA/NPA Classification Date Ex- March 31, 2021 as Due date. Repayment not received on Due date.
Upto 30 Days	SMA-0	March 31, 2021
More than 30 days and upto 60 days	SMA-1	April 30, 2021
More than 60 days and upto 90 days	SMA-2	May 30, 2021
Over 90 days	NPA	June 29, 2021

Example:

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

10. Which are the accounts classified under SMA?

SMA classification of borrower accounts are applicable to all loans (Agricultural advances governed by crop season-based asset classification norms shall be exempt from this instruction), including retail loans, irrespective of size of exposure of the lending institution.

We request you to kindly take a note of above guidelines of RBI while making payment of Principal/Interest/Other charges as applicable on due date and avoid the account to slip into SMA/NPA to improve your Credit Information Bureau Scores.

