

Customer 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 NBFC under any credit facility is 'overdue' if it is not paid on the due date fixed by the NBFC.

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 instalment/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)

SMA _ As per RBI guidelines the lender is to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). Categories for SMA classification is as below:

Loans in the nature of term loan	
SMA Sub Categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 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

NPA :

- A loan account is tagged as Non-Performing Asset (NPA) if the installment demand remains overdue/unpaid for more than 90 days. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

Example: If the due date of a loan account is 5 January 22, and full dues are not received before the day-end process for this date, the date of overdue shall be 5 January 22 . If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running the day-end process on 4 February 22 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 4 February 22. Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on 6 March 22 and if it continues to remain overdue further, it shall get classified as NPA upon running day-end process on 5 April 22.

Please note that that the aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios and that the IRACP norms and clarifications provided by RBI on the subjects referred above shall prevail.

Should you require any clarifications or assistance, please reach us at customersupport@ashvfinance.com Or contact your Relationship Manager for further details.