

CONSUMER AWARENESS ON PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING PERTAINING TO ADVANCES

Pursuant to the clarifications issued by RBI on November 12, 2021 on prudential norms, the customers are requested to refer the below concepts of Special Mention account (‘SMA’) and Non-performing asset (‘NPA’) with respect to the loan availed from any lender which includes commercial banks, primary co-operative banks, all India Financial Institutions and non-banking financial companies including housing finance companies:

A) Concept of Special Mention Account and Non-performing asset

- A lender shall recognize incipient stress in loan account immediately on default by the customer that is when the customer is unable to pay the instalment on the agreed due date and the lender shall classify the loan account of the customer as a Special Mention Account (‘SMA’). The intervals for classification of SMA and NPA are required to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

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

- A lender shall flag the loan account of customer as overdue as a part of its day-end process for the due date irrespective of the time of running such processes. Similarly, the lender shall classify the borrower accounts as SMA as well as NPA as a part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run by the lender. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.
- Following is the example that shall further elucidate the above explanation:

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

B) NPA classification in case of interest payments:

- In case of interest payments in respect of term loans, a customer loan account shall be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.
- The above provision is effective from March 31, 2022 onwards. Accordingly, in respect of customer account which becomes overdue on or after March 31, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.

C) Upgradation of accounts classified as NPA

- The loan accounts classified as NPA shall be upgraded to standard asset only when the customer makes payment and clears the entire arrears of interest and principal to the lender. This is applicable from November 12, 2021.
- 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 by RBI for such cases shall continue to be applicable.

In case of any further explanations / clarifications on asset classification, the customers are requested to communicate to the authorised representative(s) of Xander Finance Private Limited.