

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

As per RBI's notification on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications ('RBI Circular') dated November 12, 2021 norms of NPA has been revised as under

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

Immediately on default, borrower accounts will be classified as **special mention accounts (SMA)** as follows:



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

Examples

Example 1

Let us understand taking January 03rd, 2022 as the due date –

DPD Status as on 03rd January	Classification as on the day end	Classification as on the Reporting Date, i.e. 31 st January 2022
1-30 days	SMA 0	To be reported as per the day end process Upgraded to Standard only if the entire outstanding is repaid
31-60 days	SMA 1	
61- 90 days	SMA 2	
More than 90 days	NPA	

Example 2

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.

Note:

As per RBI's guidelines, the lending institutions will flag borrower accounts as overdue at the day-end processes for the due date, irrespective of the time of running such processes. The classification of borrower accounts as SMA or NPA shall also be done as part of the day-end process for the relevant date. In other words, the SMA or NPA classification date shall be the calendar date for which the day end process is run.

Upgradation of NPA Accounts

The loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower. Partial payment, such as payment of only interest or only one instalment, shall not result in the upgradation of the loan account.

Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

Frequently Asked Questions (FAQ's)

1) What is meant by "Days Past Due (DPD)

It indicates whether you have been consistent in your repayments and if you have missed any, how many instalments you have missed and by how many days.

The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify the loan account as NPA.

2) What does Non-Performing Asset (NPA) mean ?

NPA shall mean:

- a) An asset, in respect of which, interest has remained overdue for a period of 90 days or more;
- b) A term loan inclusive of unpaid interest, when the installment is overdue for a period of 90 days or more or on which interest amount remained overdue for a period of 90 days or more;
- c) a demand or call loan, which remained overdue for a period of 90 days or months or more from the date of demand or call or on which interest amount remained overdue for a period of 90 days or more;
- d) A bill which remains overdue for a period of 90 days or more;
- e) The interest in respect of a debt or the income on receivables under the head 'other current assets' in short-term loans/advances, which facility remained overdue for a period of 90 days or more;
- f) Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of 90 days.

3) When are group assets classified as NPA?

All the account (s) shall be considered as non-standard in respect of loans & advances made available to the same borrower, when any of them becomes non-performing asset. Thus, all loans and advances availed by a person, shall be considered as link loan accounts and sub-standard or non-performing asset, if found irregular in repayment in any of the account(s) under asset classification rules.

For example, Applicant has availed three loan advances under loan against property and amongst all three loans one of the loan accounts has been marked as NPA due to irregularity in repayment and rest two accounts are regular, then as per asset classification rule, all the three accounts shall be considered as NPA or non-performing asset.

4) When and how can NPA marking be removed from any account?

To remove NPA marking, the borrower has to make the payment of all overdue instalment on the account so that the asset can be reclassified as normal asset.

In case of multiple Loans (exposures) one must pay all the outstanding of principal and interest in all the NPA accounts to remove the NPA marking from all the accounts.

For example, If there are four non-paid installments towards the repayment of the loan account, then in this case the loan account holder has to pay all four installments (principal, interest) to make the account regular and remove NPA stamping.