

CUSTOMER EDUCATION REGARDING ASSET CLASSIFICATION

As per RBI Master Circular 'Prudential norms on Income Recognition, Asset Classification and provisioning pertaining to Advances' dated November 12, 2021

What is Due Date?

The Due Date is referred to as the date of payment that is fixed by the Financial Institution for payment of EMI/ Pre-EMI/ Interest under the Loan Agreement and the Sanction letter executed between the Borrower and the Financial Institution.

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' as indicated below, 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.

In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

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.

SMA is more of a precautionary measure to recognize a financial stress early and therefore to take corrective action to contain that stress and prevent an account from turning into NPA.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA) The Financial Institution is required to recognize the incipient stress in your loan account, immediately on default of payment under Loan Agreement and the same needs to be classified as SMA (Special Mention Accounts) or NPA (Non-Performing Asset).

The clarification of the classification is as follows:

Classification of Special Mention Accounts(SMA)/ Non-Performing Asset (NPA):	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA - 2	61-90 days
NPA	More than 90 days



Accordingly, the date of SMA/NPA shall reflect the asset classification status of the loan account, at the day- end of that calendar date.

An illustration of such classification is as follows:

- If the due date of an EMI is 2nd of every month and the Borrower does not pay on the Due Date and the Installment amount remain unpaid for a continuous period of 30 days, the Lender shall report the Borrower as an **SMA-0**.
- If the Borrower further continues to default in repayment from a period of 30 days up to 60 day, the Lender shall report the Borrower as **SMA-1**.
- If the Borrower further continues to default in repayment from a period of 60 days up to 90 day, the Lender shall report the Borrower as **SMA-2**.
- If the account continues to remain overdue beyond 90 days, it shall get classified as **NPA**.

Please note that account will be classified as NPA, if the interest applied at a specified date remains overdue for more than 90 days. **Also, please note that the NPA account can only be upgraded as 'Standard' asset if the entire arrears of interest and principal are paid by the borrower.**

Upgradation of accounts classified as NPA

All the loan or credit facility accounts of a borrower will be classified as NPA, in case any one of the accounts get classified as NPA and will continue to remain classified as NPA unless the overdue of all the loan accounts or credit facilities are fully repaid by the customer.

The norms and clarifications of SMA/NPA captured in the Income Recognition, Asset Classification and Provisioning ("IRACP") provided by Reserve Bank of India ("RBI") will prevail.

It is advised to adhere with the Repayment Schedule under the Loan Agreement and maintain a healthy repayment record for your loan in order to maintain a healthy credit score and to avoid any reporting into the credit bureau, which can adversely affect your credit rating.