

CONSUMER EDUCATION-CLASSIFICATION OF LOAN ACCOUNTS AS

SMA & NPA

Introduction:

Bank classifies a loan account as **SPECIAL MENTION ACCOUNT (SMA)**, immediately in case of default in payment of installment in case of Term Loans(TL) and default in payment of interest in case of CC/OD account, by the borrower, as per guidelines issued by Reserve Bank of India (RBI). Bank classifies the loan account which remains overdue (in case of TL) or out of order (in case of CC/OD account) for more than 90 days, as **NON PERFORMING ACCOUNT (NPA)**. The applicable laws and guidelines and revision in classification of SMA and NPA from time to time under the applicable laws, rules, guidelines etc., including the guidelines issued by RBI shall be binding on the borrowers.

The classification of SMA and Identification of NPA in case of default of Term Loan, CC/OD facility, Bills discounting facility, interest payment is specified hereunder and such classifications are subject to change from time to time and shall be binding on the borrower when such change/s is/are effected. If any account is classified as SMA/NPA, the credit scores in CIC's of the borrowers & the guarantors will be adversely effected.

Classification as SMA (SPECIAL MENTION ACCOUNT)

Loans in the nature of term Loans		Loans in the nature of revolving facilities like Cash Credit/Overdraft	
Category	Basis for Classification – Principal or interest payment overdue or any other amount wholly or partially overdue	Category	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	Up to 30 days		
SMA-1	More than 30 days and up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

Identification of NPA (NON-PERFORMING ASSET):

An asset, including a leased asset, becomes Non-Performing when it ceases to generate income for the bank.

A non performing asset (NPA) is a loan or an advance where;

- i. interest and/or installment 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 installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the installment of principal or interest thereon remains overdue for one crop season for long duration crops,
- vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the [Reserve Bank of India \(Securitisation of Standard Assets\) Directions, 2021](#).
- vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

*An account should be 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 as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Illustration of SMA and NPA:

If Mr Peter avails a loan of Rs.10,00,000/- on 01.01.2023, the due date for payment of installment (say an EMI of Rs.10,000/-) is 01.02.2023.

If Mr Peter pays the due amount (Rs.10,000) on or before 01.02.2023, there would not be any overdue amount and hence account would not be categorized as SMA.

However, if Mr Peter does not pay the installment or fails to pay the installment on or before the due date at the EOD then the account would be classified as SMA-0 (i.e. irregular above 1 day up to 30 days) on the End Of Day (EOD) process of 01.02.2023 and the first date of overdue would be 02.02.2023.

If Mr Peter does not pay his installment on 01.03.2023, the period of overdue would be more than 30 days and up to 60 days, the loan account would be classified as SMA-1.

Again, if Mr Peter does not pay the installment on 01.04.2023, the period of overdue would be more than 60 days but would be up to 90 days and as such, the loan account would be classified as SMA-2.

If Mr Peter pays a part amount, the account would remain in the SMA only. But, if he does not pay anything, based on the overdue date (02.02.2023 in this case), the account will be categorized as NPA on 91st day of overdue, i.e. on the EOD process of 01.05.2023, the NPA date would be 02.05.2023.

If the account is categorized as NPA, it shall be re-classified as *Standard Account* only after entire overdue are repaid by the borrower. In case of borrowers having more than one credit facility from the Bank, 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. It should be noted that the asset classification is done borrower-wise basis and not facility-wise.
