

Customer Awareness on Classification of Loan Account as Special Mention Account (SMA) and Non-Performing Asset (NPA)

What is Non-performing Assets?

An asset, including a leased asset, becomes non performing when it ceases to generate income for the lender. In respect of term loan, a non-performing asset (NPA) is a loan or an advance where interest and/ or instalment of principal remains overdue for a period of more than 90 days. RBI in its circular on regarding Classification of Loan Account as Special Mention Account (SMA) and Non-Performing Asset (NPA) (RBI circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22) on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications’ dated Nov. 12, 2021, clarified

- **Overdue** - an amount is to be treated as **overdue** if it is not paid on the due date fixed by the Lender (before the Lender runs the day-end process for that day).
- **Due Date** - the date as specified in the Repayment Schedule on which the instalment is due to be paid.

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

The regulation provided below classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

The below Illustration covers the concepts of date of overdue, classification as Special Mention Account (“SMA”) and Non-Performing Asset (NPA), upgradation of loan account etc.

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
NPA	More than 90 days end of day	NPA	More than 90 days end of day

Accordingly, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. An illustration of such classification is given below:

Classification as:	Illustrative dates (Loans other than revolving facilities)
Original Due Date	May 05, 2022
SMA -0	May 05, 2022 end of Day
SMA-1	June 04, 2022 end of day
SMA-2	July 04, 2022 end of day
NPA	August 03, 2022 end of day

Further, upgradation of accounts classified as NPAs Customer classified as NPAs may be upgraded as 'standard' only if entire arrears of interest and principal are paid by the customer. 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 for such cases shall continue to be applicable.

For example. if a customer is classified as NPA on August 03, 2022 with an overdue of Rs. 10,000, the customer will be upgraded to standard only after receipt of full overdue amount.
