

The RBI vide circular Ref.No.DOR.STR.REC.68/21.04.048/2021-22 dated November 12,2021 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued certain clarifications.

A. Specification of due date/repayment date

The extant instructions on IRACP norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the bank. It has been observed that due dates for repayments are sometimes not specifically mentioned in the loan agreements, and instead a description of due dates is mentioned, leaving scope for different interpretations. Henceforth, the exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. These instructions shall be complied with at the earliest, but not later than December 31, 2021, in respect of fresh loans. In case of existing loans, however, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/review

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

The circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019 on ‘Prudential Framework for Resolution of Stressed Assets’ requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). In order to remove any ambiguity, it is clarified that the intervals are intended 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	Balance 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

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as

well as NPA shall be done as 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. 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.

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.

It is further clarified that the instructions on SMA classification of borrower accounts are applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution.

As per the guidelines Cash Credit / Overdraft (CC/OD) account is classified as NPA if it is out of order. Further it is clarified that an account shall be treated as out of order if :

- i) The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit / drawing power for 90 days, or
- ii) The outstanding balance in the CC/OD account is less than the sanctioned limit/ drawing power but there are no credits continuously for 90 days or the outstanding balance in the CC/OD account is less than the sanctioned limit / drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

All the borrowers are requested to take note of above changes.