

CUSTOMER AWARENESS - REGARDING CLASSIFICATION OF LOAN ACCOUNT AS SMA AND NPA

Pursuant to 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

Customer Education Manual on Stress/SMA/NPA Marking Process

1. What is a Stress Account?

Amount of interest/installments are required to be repaid by the borrowers as stipulated in the Sanction Order. If the same is not adhered to or a Borrower's loan account where EMI/Installments are not paid /regularized on due date as per the terms and conditions of loan sanction, such accounts are called stress accounts.

2. What are Special Mention Account (SMA)?

Special Mention Accounts are those accounts which show symptoms of bad asset quality in the first 90 days itself or before it is classified as NPA. On identification of incipient stress in the loan accounts immediately on default, Bankers/Lenders classify such assets as special mention accounts (SMA)

3. How SMA are categorized?

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated 7th June, 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). It is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be 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
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:

- **SMA 0** - If due date of a loan account is 31st March, 2021, and full dues are not received on this date, the account shall be SMA 0 on day end of 31st March, 2021.
- **SMA 1** - If the account continues to remain overdue, then this account shall get tagged as

SMA-1 upon completion of 30 days of being continuously overdue i.e. 30th April, 2021.

- **SMA 2** - If the account continues to remain overdue, it shall get tagged as SMA-2 on 30th May, 2021
- **NPA** – If the account continues to remain overdue further, it shall get classified as NPA on 29th June, 2021

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.

Borrower accounts classified as NPAs shall be upgraded as “standard” only if entire arrears of interest and principal are paid by the Borrower. For e.g. if a loan is classified as NPA on 29th June 2021 with an overdue of Rs.50,000/-, the account shall be upgraded to standard only after receipt of all outstanding arrear EMIs as on the date of receipt, which would include, but not limited to the current overdue of Rs.50,000/-

These instructions shall be effective 31st March, 2022. Accordingly, in respect of any borrower account, which becomes overdue on or after 31st March, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.