

CONSUMER EDUCATION ON OVERDUES, SMA, NPA

Concepts/Clarifications/Illustrative examples on Due dates and specification of SMA/NPA classification dates:

- **Dues mean:** the principal/interest/any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.
- **Overdue mean:** the principal/interest/any charges levied on the loan account which are payable, but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Relevance of the Principle of 'First In First Out' (FIFO) in appropriation of payments into the borrowal account:

- The Principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the number of days of overdue for determining the SMA/NPA status.
- The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first.
- The FIFO method thus requires that what is due first must be paid by the borrower first.
- For example, if in any loan account as on 1.2.2022 there are no overdues and an amount of "X" is due for payment towards principal instalment/interest/charges, any payment being credited on or after 1.2.2022 in the loan account will be used to pay off the dues outstanding on 01.02.2022.
- Assuming that nothing is paid/or there is partial payment (`Y) of dues during the month of February, the overdue as on 1.3.2022 will be `X-Y .
- Additionally, an amount of `Z becomes due as on 1.3.2022. Now any payment/partial payment into the account on or after 1.3.2022 will be first utilised to pay off the partial due of 1.2.2022 (`X - `Y). If there is more recovery than the `X - `Y then, after recovering dues of 01.02.2022, the remaining amount will be treated as recovery towards due of 01.03.2022.

Age of oldest Dues:

- The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the aforesaid illustration, if the Dues relating to 1 February 2022 remain unpaid till 01.03.2022, the age of the oldest dues is reckoned as 29 days on 01.03.2022.

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

- Lending institutions will recognise the incipient stress in loan accounts, immediately on Default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA/NPA Category shall be as follows:

Loans in the nature of Term Loans/other credit facilities	
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 up to 60 days
SMA -2	More than 60 days and up to 90 days

Loans in the nature of Cash credit/Overdraft/Other credit facilities	
SMA Sub-categories	Basis for classification – (a) Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, (b) Principal or interest payment or any other amount wholly or partly overdue for a period of
SMA -0	
SMA -1	More than 30 days and up to 60 days
SMA -2	More than 60 days and up to 90 days

Non-performing Asset

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 in respect of a term loan,
- the account remains 'out of order' as indicated below in respect of an Overdraft/Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

'Out of Order' Status

An account shall be treated as 'out of order' if:

- the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- 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.

Illustrative movement of an account to SMA category to NPA category based on delay/non-payment of dues and subsequent upgradation to Standard category at day end process:

Due Date of Payment	Payment Date	Payment Covers	Age of Oldest dues in Days	SMA/NPA Categorisation	SMA since Date/SMA Classification Date	NPA Categorisation	NPA Date
01.01.2022	01.01.2022	Entire dues upto 01.01.2022	0	Nil	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA – 0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA – 0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA – 0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA – 0	01.03.2022	NA	NA
		No Payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA - 1	01.02.2022/ 03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid. Due for 01.03.2022 not fully paid at EOD	1	SMA - 0	01.03.2022	NA	NA
01.04.2022		No Payment of dues of 01.02.2022, 01.03.2022 and amount due on 01.04.2022 at EOD 01.04.2022	60	SMA 1	01.02.2022/ 03.03.2022	NA	NA

		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA 2	01.02.2022/ 02.04.2022	NA	NA
01.05.2022		No Payment of dues of 01.02.2022 till 01.05.2022 at EOD 01.05.2022	90	SMA 2	01.02.2022/ 02.04.2022	NA	NA
		No Payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	NA	NPA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NPA	02.05.2022
01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	NA	NPA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NPA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with No Overdues	NA	NA	STD from 01.10.2022