

## **Consumer Education Literature for concepts of special mention accounts (SMA) and non-performing assets (NPA) classification**

Reserve Bank of India (RBI) periodically issues guidelines to lending institutions on income recognition and asset classification. Jowai Co-operative Urban Bank Ltd (the Bank) offers various types of loans and asset related services to its customers, as per internal policies of the Bank and in compliance with the RBI guidelines. It is important for customers to repay their loan dues on time to maintain a healthy credit score.

### **A. Irregular/overdue accounts**

The loan account is considered as '**irregular/overdue**' by the Bank, if the principal amount of loan, interest thereon, equated monthly installment (EMI) is not paid on the due date.

For instance, if due date for a loan account is March 31, 2023 and full dues are not received on the same date, the date of irregularity (overdue) shall be March 31, 2023.

### **B. Special mention accounts (SMA) reporting**

The irregular/overdue accounts are classified as SMA (reporting at borrower level) as follows:

	<b>Loans other than revolving facilities</b>	<b>Loans in the nature of revolving facilities like cash credit/overdraft</b>
SMA sub-categories	Principal or interest payment or any other amount wholly or partly overdue	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	Not applicable
SMA-1	More than 30 days and upto 60 days	
SMA-2	More than 60 days and upto 90 days	

Example: If the due date for a loan account is March 31, 2023 and the entire dues are not paid by the borrower, the account would be reported as:

SMA-0: During March 31, 2023 to April 29, 2023

SMA-1: During April 30, 2023 to May 29, 2023

SMA-2: During May 30, 2023 to June 28, 2023

The overdue position for the loan accounts is also reported to credit bureaus.

## C. Classification of non-performing asset (NPA)

### 1) Based on ageing of irregularity/overdues

As per RBI guidelines, 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 in respect of a term loan,
- the account remains 'out of order,' in respect of an Overdraft/Cash Credit (OD/CC),

An account is 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. The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account shall be inclusive of the day for which the day-end process is being run.

**D.** Based on the ageing of the loan as NPA, the accounts are further classified as:

### E.

Class	Description
Sub-standard	An account that is non-performing for a period not exceeding 12 months
Doubtful	An account that has remained in the sub-standard category for more than 12 months
Loss	An account which is considered uncollectible and of such little value, that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value

### F. Upgrade from NPA

The loan accounts which are classified as NPAs due to overdue/irregular criteria are upgraded to 'standard', if the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Bank and CC/OD accounts are not in 'out of order' status.

The loan accounts classified as NPAs after restructuring or other reasons are upgraded based on the subsequent performance of these accounts.

## G. Example for SMA/NPA status

Loan facilities other than in the nature of CC/OD accounts:

### 1. All dues paid

Date	Charged (₹)	Recovery (₹)	DPD*	Status	Remarks
Mar 31, 2023	1,000	1,000	0	Regular	No overdues

\*DPD: days-past-due

### 2. No dues paid

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	-	31	SMA-1	Overdue position
May 30, 2023	-	-	61	SMA-2	Overdue position
May 31, 2023	1,150	-	62	SMA-2	Overdue position
Jun 29, 2023	-	-	91	NPA <sup>1</sup>	Asset classification

1. Agriculture loans would be reported as NPA after 365 DPD, till then the accounts would be reported as SMA-2.

### 3. Partial dues paid (during SMA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	800	31	SMA-1	Overdue for Mar
May 25, 2023	-	500	26	SMA-0	Overdue for April
May 31, 2023	1,150	-	32	SMA-1	Overdue for April
Jun 28, 2023	-	1,000	29	SMA-0	Overdue for May
Jun 30, 2023	900	-	31	SMA-1	Overdue for May

Note: 1. The SMA status may be upgraded on payment of dues by the borrower.

2. The appropriation of recovery would be done for the oldest overdue as per first-in-first-out (FIFO) basis.

### 4. Partial dues paid (after NPA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2023	1,000	-	1	SMA-0	Overdue position
Apr 30, 2023	1,100	-	31	SMA-1	Overdue position
May 30, 2023	-	-	61	SMA-2	Overdue position
May 31, 2023	1,150	-	62	SMA-2	Overdue position
Jun 29, 2023	-	-	91	NPA	Asset classification
Jun 30, 2023	-	3,000	31	NPA	All dues not cleared

Note 1. The account classified as NPA is upgraded only when the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Bank.

**Loan facilities in the nature of CC/OD accounts:**

**1. Out of order (CC/OD accounts) - Not enough credits in the account in last 90 days**

Date	Debit (₹)	Credit (₹)	Status	Remarks
Mar 31, 2023	1,000	-		
Apr 1, 2023	-	1,000		
Apr 30, 2023	1,050	-		
May 1, 2023	-	1,050		
May 31, 2023	1,025	-		
Jun 29, 2023	-	-	NPA	Total interest debits in 90 days: ₹ 3,075, total credits: ₹ 2,050

The above examples are illustrative covering common scenarios and not exhaustive and subject to change based on the RBI guidelines. The asset classification of the borrowers would be determined based on the prevailing RBI guidelines including Master Circular issued by RBI on income recognition, asset classification and provisioning pertaining to advances.