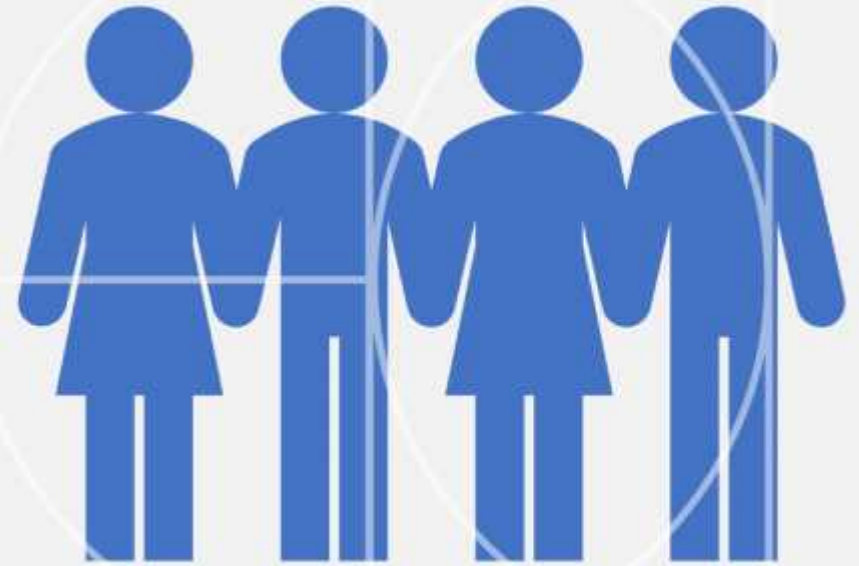
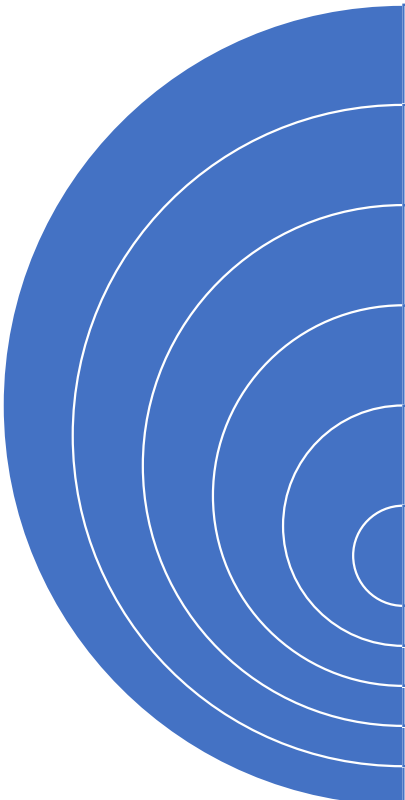


Customer Education on Income Recognition & Asset Classification (IRAC) Norms

Presentation by :
State Bank of India



What this presentation focusses on ?



Clarity on definition of NPA
Out of Order and Overdue status
Special Mention Accounts
Day end processes of Banks
Specific due dates of repayment
Upgradation from NPA status

What is a Non-Performing Asset ?



Any asset (loan or advance), including a leased asset , becomes non-performing when it ceases to generate income for the Bank.



(In simple terms, bank stops charging interest when there is no recovery in account beyond a certain stipulated period)

Non- Performing Assetcontd....

- **A non-performing asset (NPA) is a loan or an advance where : (NPA is Borrower-wise / Not Facility-wise)**
- i. interest and/ or instalment of principal remains **overdue** for a period of **more than 90 days** in respect of a **term loan**, (i.e interest applied at specified rests remains overdue for more than 90 days)
- ii. the account remains '**out of order**', (continuously for 90 days) in respect of an **Overdraft/Cash Credit (OD/CC)**,
- iii. the bill remains **overdue** for a period of **more than 90 days** in the case of **bills purchased and discounted**
- iv. the instalment of **principal or interest** thereon remains overdue **for two crop seasons for short duration crops**,
- v. the instalment of **principal or interest** thereon remains overdue **for one crop season for long duration crops**,
- vi. in respect of **derivative transactions**, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment
- vii. the amount of **liquidity facility** remains **outstanding for more than 90 days**, in respect of a **securitisation transaction** undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.

'Out of Order' and 'Overdue' status

'Out of Order' Status

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

The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account is inclusive of the day for which the day-end process is being run. [*day-end process' explained separately*]

'Overdue' status

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

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

- *Normally, before any loan account slips to NPA , it becomes a Special Mention Account.*
- *In order to understand classification of loan account as ‘Special Mention Account’ (SMA), one needs to comprehend the event of ‘Default’.*
- *As per RBI’s “Prudential Framework for Resolution of Stressed Assets”, lenders need to recognise incipient stress in borrower accounts, immediately on Default by classifying them as Special Mention Account(s).*
- *The basis for classification of SMA categories is based on specified intervals of ‘overdue’ and ‘out of order’ status after incidence of Default under various loan facilities.*

.....**Contd**.....

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

-Contd..... Classification of SMA categories :

Loans other than revolving facilities (DL/TL)		Loans in nature of revolving facilities (CC/OD)	
SMA sub- categories	Principal or interest payment or any other amount wholly or partly 'overdue'	SMA sub-categories	Outstanding balance remains continuously in excess of sanctioned limit or drawing power , whichever is lower, for a period of :
SMA -0	Upto 30 days	--	-- (N.A)
SMA -1	More than 30 days upto 60 days	SMA -1	More than 30 days upto 60 days
SMA- 2	More than 60 days upto 90 days	SMA -2	More than 60 days upto 90 days

- **SMA classifications as above are applicable to all loans, including retail loans, irrespective of size of exposure of lending institution.**
- **Agricultural advances governed by crop season –based asset classification norms shall be exempt from these instructions.**
- **Status of all accounts is shared with Credit Information Companies (CICs) and of Rs. 5 crore & above with RBI.**

Day- end process

- Borrower accounts shall be flagged as 'overdue' by the lenders 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 it continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021*

Specification of due date/ repayment date



IRAC Prudential norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the bank.



Therefore, 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.

Upgradation from NPA to 'Standard'

- Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.
- **With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of Date of Commencement of Commercial operations (DCCO) *, etc., different guidelines are in place.**
- * *Detailed DCCO guidelines are applicable in case Project Finance in Infrastructure as well as Non-Infrastructure projects.*
- *RBI has stipulated certain conditions for exemption of NPA classification in such accounts, resulting in shift of repayment schedule on account of delay in commencement of commercial operations.*



end of presentation

धन्यवाद

Thank you