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Consumer Education Literature FAQ on Income Recognition, Asset Classification (IRAC) Norms

1. What is a Non-Performing Asset?

A 'non-performing asset' (NPA) is defined as credit in respect of which interest and/ or instalment of principal has remained 'past due' for a period of 90 days or more.

A Non-performing asset (NPA) is a loan or an advance where:

- ❖ interest and/ or instalment of principal remain 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),
- ❖ 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,
- ❖ 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.

An account can be classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. Out of Order:

Cash credit/Overdraft (CC/OD) is classified as NPA if it is 'Out of Order'. An account should be treated as 'out of order' if

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

3. Special Mention Account (SMA) and Classification

The classification of Special Mention Accounts (SMA) is introduced by the RBI, to identify those accounts that have the potential to become an NPA/Stressed Asset. Classification of SMA is as below:

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	Basis 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 up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

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, 2022, 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, 2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2022 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, 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2022. SMA classification are applicable to all loans (except agricultural advances governed by crop season based asset classification norms) including retail loans irrespective of size.

4. What is overdue amount?

Loan Overdue Amount is the amount left unpaid even after the due date of payment.

Example: A customer availed a personal loan of Rs.1,00,000 on a 01.01.2022. If EMI of the said Loan is Rs.5,000/- and repayment of the said Loan account starts from 01.02.2022. If customer fails to pay this EMI amount of Rs.5,000/- on or before 01.02.2022 (due date), this amount will be Loan Overdue Amount.

5. Up-gradation of loan accounts classified as NPAs

Loan accounts classified as NPAs may be upgraded as Standard assets only if entire arrears of interest and principal are paid by the borrower. With regard to up gradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operation (DCCO), etc., the instructions as specified for such cases shall be applicable.

6. What is the meaning of the term 'Dues'?

The term '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.

7. Renewal Pending:

Regular and ad-hoc credit limits need to be reviewed/regularized not later than three months from the due date/date of ad-hoc sanction.

8. Non-Submission of Stock & Book Debt Statement:

If a CC/OD account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate lenders to determine Drawing Power calculated under the account. The outstanding in the account based on the Drawing Power calculated from stock & Book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

9. At what periodicity the lending Institutions undertake the classification of Accounts as SMA or NPA?

Lending institutions undertake the process of classification of accounts as SMA/NPA on daily basis during the Day-end-process.

10. Whether all loan accounts of the borrower is classified as NPA if one of his loan accounts turns NPA?

Yes, NPA classification is borrower wise and not account wise. Hence if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower also will be classified as NPA.

11. Whether amount paid/deposited during the day is considered during the NPA marking process?

Credits received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credit received subsequently are treated as receipts for the subsequent day.

12. What is the impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines Bank has to report Stress/Default/NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time which impact the credit history of the borrowers and attendant repercussions. Further, recovery action including legal action would be initiated by Bank.
