

In tune with the guidelines issued by RBI vide Circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021, the Bank has issued the following clarifications on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances:

1. Clarification on Overdue

An amount is treated as overdue if it is not paid on the due date fixed by the Bank. It is further clarified that borrower accounts will be flagged as overdue by the Bank as part of its day end processes for the due date irrespective of the time of running such processes.

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

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 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). In order to remove any ambiguity, it is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Subcategories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Subcategories	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 upto 60 days	SMA 1	More than 30 days and upto 60 days
SMA 2	More than 60 days and Upto 90 days	SMA 2	More than 60 days and Upto 90 days

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:

SMA 0 - If due date of a loan account is March 31, 2021, and if full dues are not received before the day end process for this date, the account shall be tagged as SMA 0 on March 31, 2021.

SMA 1- 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 and the date of SMA -1 classification for that account shall be April 30,2021.

SMA 2 - If the account continues to remain overdue, it shall get tagged as SMA2 upon running day end process on May 30, 2021.

NPA - If the account continues to remain overdue further, it shall get classified as NPA on June 29, 2021.

It is further clarified that the instructions on SMA classification of borrower accounts are applicable to all loans, including retail loans. Agricultural advances governed by crop season based asset classification norms shall be exempt from SMA classification.

Illustration:

Loans other than revolving facilities

Arrears since	SMA/NPA	SMA Classification Date	Period involved
31.03.2021	SMA 0 (0-30 days)	31.03.2021	31.03.2021 to 29.04.2021
	SMA 1 (31-60 days)	30.04.2021	30.04.2021 to 29.05.2021
	SMA 2 (61-90 days)	30.05.2021	30.05.2021 to 28.06.2021
NPA (91st day Day-End)		29.06.2021	

Loans in the nature of revolving facilities like cash credit/overdraft, if outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower

Exceeding since	SMA/NPA Status	SMA Classification Date
31.03.2021	SMA 1	30.04.2021
	SMA 2	30.05.2021
NPA (90th day Day-End)		28.06.2021

3. Clarification regarding definition of 'out of order'

In order to avoid any ambiguity regarding determination of 'out of order' status of CC/OD accounts on a continuous basis, it is clarified that an account shall be treated as 'out of order' if:

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

- b. 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.

It is further clarified that 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.

The definition of 'out of order' shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.

Please find below an illustration on NPA identification due to insufficient credits as per the revised guidelines.

Date of NPA Classification (A)	Interest debits during the 90 days period (B)	Credits Received during the 90 days period (C)	Asset classification If C is greater than B	Asset classification If C is less than B
26.02.2022	29.11.2021 – 26.02.2022	29.11.2021 – 26.02.2022	Standard	NPA
05.03.2022	06.12.2021 – 05.03.2022	06.12.2021 – 05.03.2022	Standard	NPA
31.03.2022	01.01.2022 – 31.03.2022	01.01.2022 – 31.03.2022	Standard	NPA

4. NPA classification in case of interest payments

In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

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

5. Upgradation of accounts classified as NPAs

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 the Bank, 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.

Illustration:

Facilities sanctioned to Borrower A (1)	DPD as on 31.03.2021 (2)	NPA Classification Date (3)	Dues outstanding as on 31.03.2021 (4)	Proposed date of Regularization (5)	DPD as on 30.09.2021 (6)	Dues outstanding as on 30.09.2021 (7)	Amount required to be remitted for regularization (8)
Housing loan	91 Days	31.03.2021	36000	30.09.2021	140	84000	84,000
Car loan	2 days	31.03.2021	5000		30	10000	10,000
Business OD	3 days	31.03.2021	12000		45	42000	42,000
Gold Loan	Nil	31.03.2021	50000		0	0	0
Total							1,36,000

1. Due to NPA classification of Housing Loan on 31/03/2021, all other loans/credit facility of the borrower got classified as NPA based on 'borrower-wise' NPA identification as stipulated by RBI.
2. In order to upgrade the housing loan which had fallen NPA on 31.03.2021 as standard borrower in the above case has to clear not only the arrears pertaining to the housing loan account, but has to clear the entire arrears/exceeding outstanding in all other accounts. In the above example, Mr. A has to remit an amount totalling Rs.1.36 L as provided in Column No. (8).