Utkarsh Small Finance Bank
Aapki Ummeed Ka Khaata

Customer Literature on the concepts of date of overdue, SMA and NPA classification

Overdue

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.

Borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes.

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

SMA (Special Mention Account)

The 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 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	Up to 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

NPA (Non-performing Assets)

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank

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

I. Interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,

II. The account remains 'out of order' as indicated at paragraph 2.2 below, 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. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of the Reserve Bank of India (Securitization of Standard Assets) Directions, 2021.

VII. 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

In case of interest payments, banks should, classify an account 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.

In addition, an account may also be classified as NPA in terms of certain specific provisions of this Master Circular, including inter alia **Paragraphs A, B and C**

A. Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable

B. Accounts where there is erosion in the value of security/frauds committed by borrowers

I. In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment, the asset should be straightaway classified as doubtful or loss asset as appropriate:

a. Erosion in the value of security can be reckoned as significant when the realizable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category.

b. If the realizable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrower accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset.

II. Provisioning norms in respect of all cases of fraud:

c. Banks should normally provide for the entire amount due to the bank or for which the bank is liable (including in case of deposit accounts), immediately upon a fraud being detected. While computing the provisioning requirement, banks may adjust financial collateral eligible under Basel III Capital Regulations - Capital Charge for Credit Risk (Standardized Approach), if any, available with them with regard to the accounts declared as fraud account;

d. However, to smoothen the effect of such provisioning on quarterly profit and loss, banks have the option to make the provisions over a period, not exceeding four quarters, commencing from the quarter in which the fraud has been detected;

e. Where the bank chooses to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year, banks should debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the amount remaining unprovided at the end of the financial year by credit to provisions. However, banks should proportionately reverse the debits to 'other reserves' and complete the provisioning by debiting profit and loss account, in the subsequent quarters of the next financial year;

f. Banks shall make suitable disclosures with regard to number of frauds reported, amount involved in such frauds, quantum of provision made during the year and quantum of unamortized provision debited from 'other reserves' as at the end of the year.

C. Prudential Norms Applicable to Restructuring

a) Definition of Restructuring

I. Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower. Restructuring may involve modification of terms of the advances / securities, which would generally include, among others

II. Alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months

III. For this purpose, the board-approved policies of lenders on resolution of stressed assets, required to be in place in terms of these guidelines, shall also have detailed policies on various signs of financial difficulty, providing quantitative as well as qualitative parameters, for determining financial difficulty as expected from a prudent bank. In order to enable lenders to frame respective policies for determination of financial difficultly, a non-exhaustive indicative list of signs of financial difficulty are provided as under

a. A default, as per the definition provided in the framework, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default

b. A borrower not in default, but it is probable that the borrower will default on any of its exposures in the foreseeable future without the concession, for instance, when there has been a pattern of delinquency in payments on its exposures

c. A borrower’s outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons

d. On the basis of actual performance, estimates and projections that encompass the borrower’s current level of operations, the borrower’s cash flows are assessed to be insufficient to service all of its loans or debt securities (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future

e. A borrower’s credit facilities are in non-performing status or would be categorized as nonperforming without the concessions

f. A borrower’s existing exposures are categorized as exposures that have already evidenced difficulty in the borrower’s ability to repay in accordance with the bank’s internal credit rating system

g. The above list provides examples of possible indicators of financial difficulty, but is not intended to constitute an exhaustive enumeration of financial difficulty indicators with respect to restructuring. Lenders shall need to complement the above with key financial ratios and operational parameters which may include quantitative and qualitative aspects. In particular, financial difficulty can be identified even in the absence of arrears on an exposure. The robustness of the board approved policy and the outcomes would be examined as part of the supervisory oversight of the Reserve Bank

b) Prudential Norms

I. Asset Classification

In case of restructuring, the accounts classified as 'standard' shall be immediately downgraded as non-performing assets (NPAs), i.e., 'sub-standard' to begin with. The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring. In both cases, the asset classification shall continue to be governed by the ageing criteria as laid out in Part A of this Master Circular

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions 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 continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.