



Laxmi India Finleasecap Private Limited

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Customer Awareness - Regarding Classification of Loan Account as SMA and NPA

With reference to the recently issued RBI circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications' dated 12th November, 2021, the following clarifications may kindly be noted.

Key Highlights of revised NPA Norms:

1. The timelines for **Special Mention Account (SMA)** categorization have been modified, the overdue timeline for SMA 0 shall be Upto 30 days, SMA 1 shall be more than 30 Upto 60 days and SMA 2 shall be more than 60 Upto 90 days. Please refer to the note below for details.
2. The Classification of borrower accounts as Special Mention Account (SMA) as well as Non-Performing Asset (NPA) shall be done as part of the day-end process for the relevant date. The SMA or NPA classification date shall be the calendar date for which the day end process is run. The said SMA classification of borrower accounts are applicable to all loans.
3. Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
4. In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'.
5. If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

A. Clarification on Overdue: An amount is to be treated as overdue if it is not paid on the due date fixed by the Lender (before the Lender runs the day-end process for that day). **Due Date** is the date as specified in the Repayment Schedule on which the instalment is due to be paid.

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

The below Illustration covers the concepts of date of overdue, classification as Special Mention Account ("SMA") and Non-Performing Asset (NPA), upgradation of loan account etc.

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 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
NPA	More than 90 days	NPA	More than 90 days

Accordingly, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. An illustration of such classification is given below:

Classification as:	Scenario I	Scenario II
Original Due Date	5 April 2022	2 April 2022

SMA 0	5 April 2022 end of day	2 April 2022 end of day
SMA 1	5 May 2022 end of day	2 May 2022 end of day
SMA 2	4 June 2022 end of day	1 June 2022 end of day
NPA	4 July 2022 end of day	1 July 2022 end of day

As per RBI's guidelines, the lending institutions will flag borrower accounts as overdue at the day-end processes for the due date, irrespective of the time of running such processes. The classification of borrower accounts as SMA or NPA shall also be done as part of the day-end process for the relevant date. In other words, the SMA or NPA classification date shall be the calendar date for which the day end process is run.

C. Upgradation of accounts classified as NPAs

Customer classified as NPAs may be upgraded as 'standard' only if **entire arrears** of interest and principal are paid by the customer for all their accounts. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

For e.g. if a customer is classified as NPA on 4 July 2022 with an overdue of Rs. 50,000/-, the customer will be upgraded to standard only after receipt of full overdue amount.

Pay your instalments on time which helps you build your Credit Score

Higher Credit Score may help you get higher loan value with lower interest rates
