



LOANS AND ADVANCES

FOLLOW TIMELINE FOR REPAYMENT-AVOID OVERDUES

IMPORTANT INFORMATION FOR BORROWERS

HOW AMOUNTS UNDER LOANS AND ADVANCES (CREDIT FACILITIES) BECOME OVERDUE

HOW ACCOUNTS BECOME SPECIAL MENTION ACCOUNTS 0, 1, AND 2 (SMA-0-1-2)

HOW DO ACCOUNTS BECOME NON-PERFORMING ASSETS (NPAs)

I. GENERAL

1. Need for regular repayment in loan accounts/turnover in advances accounts

Borrowers need to pay installments, interest and other charges in respect of loan accounts on time. Borrowers who enjoy facilities such as cash credits and overdrafts (i. e. advances), whether running/revolving or otherwise, also need to keep them regular by routing credits through accounts, maintaining outstanding amounts below the limit or drawing power (whichever is less) and keep the interest, charged by Bank, covered by credits into account. Loans and advances together are called credit facilities.

2. Quality of loans and advances dependent upon age (oldness) of irregularity

The quality of loans and advances is measured as per the directions from the Reserve Bank of India (RBI). The basic principle to determine the quality is the record of regular payment or recovery. The quality of loans and advances regresses as default in payment or continuation of irregularity grows in age.

3. Regression in quality of loans and advances alerts the Bank to problems, in account warranting action

As the quality of any loan and/or advance to a borrower regresses i. e. goes down, it compels the Bank to start taking measures to regularise them or, after some stage, take action including legal action for recovery. The classification of loans and advances as they regress is explained in Sub-Para II.5. below.

II. CLARIFICATION OF CONCEPTS AND TERMS

1. First-In-First-Out (FIFO)

- i. As Asset Classification is based upon the age of the irregularity, it is necessary to reduce its age by, counting credits into the account, as repayment towards the debits or irregularity, in date-wise order; i. e. any credit into the account will be taken to adjust against the earliest irregularity. Thus, the FIFO principle assumes that the oldest outstanding dues in the loan account are cleared first.
- ii. For example; if in any loan account, there are no overdues as on 01.02.2021, and an amount of Rs. X is due for payment towards principal instalment/interest/ charges, any payment being credited on or after 01.02.2021 in the loan account will be used to pay off the dues outstanding on 01.02.2021. Assuming that nothing is paid or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.02.2021 will be (Rs. X- Rs. Y). Additionally, an amount of Rs. Z becomes due as on 01.03.2021, Now any payment/partial payment into the account on or after 01.03.2021 will be reckoned to pay off the partial due of 01.02.2021 (Rs X - Rs. Y).



If there is more recovery than (Rs X - Rs Y), then. after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards dues of 01.03.2021 (Rs. Z).

2. Age of oldest dues:

The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the illustration in sub-Para 1. above, if the dues relating to 1.02.2021 remain unpaid till 01.03.2021, the age of the oldest dues is reckoned as 29 days on 02.03.2021.

3. Overdue

Overdue means the principal *I* interest/ any charges levied on the loan account which are payable but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, 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.

4. Day-end process

Our Bank is on “Core Banking Solution” (CBS) computer software. When the business and accounting transactions are over, the CBS computer system starts closing operations for the day. Such operations are called the Day-end process.

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

- i. The Bank, in accordance with RBI guidelines, recognises the incipient stress in credit facilities immediately on the appearance of overdues (which is one type of default; there are a few more like, say, in respect of Cash Credit/Overdraft, outstanding amount being above the sanctioned limit or drawing power), by classifying them as Special Mention Accounts (SMA). If the SMA status of a credit facility grows in age, it regresses into further undesirable status, and may become a Non-Performing Asset, if not regularised by paying up the entire amount of overdues (which may lead to recovery action by the Bank).
- ii. The table below shows how a loan facility regresses into stage-wise sub-classification of SMA.

Loans in the nature of Term Loans		Loans in the nature of 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-O	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



iii. Non-performing Asset (NPA)

- a. **NPA** is a loan or an advance (covered under the generic phrase “credit facility”) regarding which,
- interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
 - the **account remains 'out of order' as indicated** under sub-Para b. below 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.

b. **Explanation of 'Out of Order' Status (see the second bullet under sub-Para a. above)**

An account is treated as 'out of order' if,

- the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or,
- 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,
- although the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power, the credits into the account, however, are not enough to cover the interest debited during the previous 90 days period.

c. **The date of Overdue, SMA-0, 1, or 2, or NPA is same as the date of relative Day-end process**

The date of determining a credit facility as Overdue, SMA-0, 1, or 2, or NPA will be the same as the date of the Day-end process on which the amount is overdue, the CC/OD account is “Out of Order”, or the defined age for classification as SMA-0, 1 or 2, or NPA, is triggered.

d. **Norms extend to all market segments**

The norms for determining SMA-0,1, 2, or NPA are applicable to all the loans and advances, whether small or big or to individuals, retail entities, corporates or institutions.

e. **If multiple facilities, most undesirable asset classification to anyone among them gets assigned to all**

If a borrower enjoys more than one credit facility and anyone, or less than all the facilities, become(s) SMA-0,1, 2, or NPA, the most undesirable classification among them get assigned automatically to all the credit facilities regardless of one or a few of them otherwise having no overdue amount(s).



Illustrative movement of an account to SMA category/ NPA category based on delay / non-payment of dues and subsequent up-gradation to Standard category at the day-end process.

Due date of payment	Payment Date	Payment covers	Age of oldest dues in days	SMA /NPA Categorisation	SMA since Date /SMA class date	NPA categorization	NPA Date
01.01.2022	01.01.2022	Entire dues upto 01.01.2022	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA-0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA-0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid , Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA-1	01.02.2022 /03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid , Due for 01.03.2022 not fully paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022 ,01.03.2022 and amount due on 01.4.2022 at EOD 01.04.2022	60	SMA 1	01.02.2022 /03.03.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA 2	01.02.2022 /02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 01.05.2022	90	SMA 2	01.02.2022 /02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully Paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	NA	NPA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NPA	02.05.2022



01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	NA	NPA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NPA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with No Overdues	NA	NA	STD From 01.10.2022

III. Up gradation to Standard Category, of accounts classified as NPAs. only upon payment of entire overdue amount

1. An account classified as NPAs cannot be upgraded to 'standard' asset category upon payment of only interest overdues, partial overdues, etc. Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
2. With regard to the up-gradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., there are additional instructions by RBI. Clarification on them may please be sought from the Branch-In-Charge concerned of the Bank.

IV. The few examples given above are illustrative (covering common scenarios) and not exhaustive. Therefore, it is clarified that the Income Recognition, Asset Classification, and Provisioning norms, and clarifications provided by RBI thereon (which are the subjects briefly touched upon above) shall prevail.