



The Surat People's Co-op. Bank Ltd.

Estd.: 1922

Multi State Scheduled Bank

Consumer Education on SMA/NPA

For the purpose of Consumer Education on SMA/NPA, following clarification and illustration may kindly be noted in reference to RBI circular No.RBI/2024-25/13 DOR.STR.REC.9/21.04.048/2024-25 regarding Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated 02nd April, 2024.

1. What is the meaning of 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.

2. What is the meaning of term “ Overdues ” ?

“Overdues ” mean the principal / interest / any charges levied on the loan account which are payable, but have not been paid on or before the period stipulated as per the terms of sanction of the credit facility.

3. What is Stressed Account ?

Borrower are required to pay the EMI/instalment/ineterst at periodic intervals as per the terms agreed before availing of the loan. In case such EMI/instalment/ineterst dues are not paid on or before the due date on agreed terms, such account is called as a “Stressed Account”.

4. Non-performing Assets (NPA)

Classification of Assets as Non-Performing

A non-performing asset is a loan or an advance where :

(i) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.

(ii) The account remains '**out of order**' , in respect of an Overdraft / Cash Credit (OD/CC) and all other 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.

(iii) '**out of order**' : (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. The aforesaid 'previous 90 days period' is inclusive of the day for which the day-end process is being run.

(iv) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

(v) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

(vi) An account where the regular / ad-hoc credit limits have not been reviewed or have not been renewed within 90 days from the due date / date of ad-hoc sanction will be treated as NPA. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal / review of credit limits is already on and would be completed soon.

(vii) Considering the practical difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days.

Renewal Pending : Regular and ad hoc credit limits need to be reviewed / regularized not later than 90 days from the due date / date of ad hoc sanction. In case constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal / review of credit limits is already on and would be completed soon. In any case, delay beyond 90 days is not considered desirable as a general discipline. Hence, an account where the regular ad

hoc credit limits have not been reviewed/renewed within 90 days from the due date / date of ad hoc sanction will be treated as NPA.

Non-submission of Stock & Book Debt Statements : If a CC / OD accounts is sanctioned against hypothecation of stock & book debt, the borrower has to submit the stock & book debt statements periodically to facilitate lenders to determine Drawing Power under the account. The outstanding in the account based on drawing power calculated from stock statements older than three months would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days.

5. Special Mention Account (SMA)

SMA is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of her debt obligations, though the account has not yet been classified as NPA. As early recognition of such accounts enables banks to initiate timely remedial actions to prevent their potential slippages into NPAs, all UCBs shall classify loans/advances accounts as SMA, as under:

SMA Sub-categories	Basis for classification Principal or interest payment or any other amount wholly or partially overdue for
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

In case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

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

6. Identification of Assets as NPAs should be done on an ongoing basis :

(i) The system should ensure that identification of NPAs is done on an on-going basis and accounts are classified as NPA immediately, as soon as they turn into NPA as per the guidelines contained in this circular, without waiting till the end of quarter/financial year. Banks should also make provisions for NPAs as at the end of each calendar quarter i.e. as at the end of March / June / September / December, so

that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provision made for NPAs.

(ii) The borrower accounts shall be flagged as overdue by banks 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 31,2024,and full dues are not received before the bank runs the day-end process for this date, the date of overdue shall be March 31, 2024. If it continues to remain overdue, then this account shall get tagged as SMA-1 up on running day-end process on April 30, 2024 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30,2024.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30,2024 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29,2024.

7. Treatment of NPAs - Borrower-wise and not Facility-wise :

(i) In respect of a borrower having more than one facility with a bank, all the facilities granted by the bank will have to be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

(ii) However, in respect of consortium advances or financing under multiple banking arrangements, each bank may classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances. Each bank shall follow the principle at (i) above for NPA classification of a borrower.

8. Upgradation of accounts classified as NPAs :

- It is clarified that all loan accounts classified as NPAs may be upgraded as ' standard ' assets only if entire arrears (Overdue with accrued interest) of interest and principal are paid by the borrower. 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.

- A Loan account or all group accounts classified as NPA will be upgraded to standard Asset only upon regularization of all loan accounts of the borrower having arrears and rectification of attendant irregularities relating to Review /Renewal & Stock & Book debts of the borrowal account.

9. Asset Classification

9.1 Classification

9.1.1 Banks should classify their assets into the following broad groups, viz. -

- (i) Standard Assets
- (ii) Sub-standard Assets
- (iii) Doubtful Assets
- (iv) Loss Assets

9.2 Definitions

9.2.1 Standard Assets

Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

9.2.2 Sub-standard Assets

With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

9.2.3 Doubtful Assets

With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, 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.

9.2.4 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India's inspection but the amount has not been written off, wholly or partly. In other words,

such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

10. Age of oldest dues : The age of oldest dues is calculated in days from the date on which the oldest payment is due and continues to remain unpaid. For Examples – if the dues relating to 01.02.2024 remain unpaid till 01.03.2024, the age of the oldest dues is calculated as 29 days on 01.03.2024.

11. Reporting of SMA/NPA to Central Repository of Information on Large Credit (CRILC) & Credit Information Companies(CIC).

As per the regulatory guidelines bank has to report such SMA/NPA to Central Repository of Information on Large Credit (CRILC) & Credit Information Companies(CIC) etc. from time to time which impact the credit history of the borrowers and attendant repercussions.

12. Principle of ' First in First Out ' (FIFO) in appropriation of payments into the borrower account : The principle of FIFO i.e., ' First in, First Out' accounting method is relevant to arrive at the No. of days of overdue for determining the SMA/NPA status. The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

For example ; if in any loan account as on 01.02.2024 there are no overdue and an amount of Rs. X is due for payment towards principal instalment /interest/charges, any payment being credited on or after 01.02.2024 in the loan account will be used to pay off the dues outstanding on 01.02.2024.

Assuming that nothing is paid / or there is partial payment (Rs.Y) of dues during the month of February, the overdue as on 01.03.2024 will be Rs.X-Y.

Additionally, an amount of Rs.Z becomes due as on 01.03.2024, Now any payment /partial payment into the account on or after 01.03.2024 will be first utilized to pay off the partial due of 01.02.2024 (Rs.X - Rs.Y). If there is more recovery than the Rs. X – Rs. Y, then, after recovering dues of 01.02.2024, the remaining amount will be treated as recovery towards due of 01.03.2024.

13. The following table illustrates the movement of an account to SMA and further to NPA based on delay/non-payment of dues and subsequent upgrade to Standard category at day end process:

Due date of payment	Payment date	Payment covers	Age of oldest dues in days	SMA or NPA Classification	SMA or NPA reporting date
01/01/24	01/01/24	Entire dues up to 01.01.2024	0	NIL	NA
01/02/24	01/02/24	No payment or Part payment of dues of 01.02.2024	1	SMA-0	01/02/24
01/02/24	02/02/24	No payment or Part payment of dues of 01.02.2024	2	SMA-0	01/02/24
01/03/24		Dues of 01/02/2024 not fully paid 01/03/2024 is also due at EOD 01/03/2024	29	SMA-0	01/02/24
		Dues of 01/02/2024 fully paid, Due for 01/03/2024 is not paid at EOD 01/03/2024	1	SMA-0	01/03/24
		No payment of full dues of 01/02/24 and 01/03/24 at EOD 03/03/24	31	SMA-1	01/02/24/ 03/03/24
		Dues of 01/02/2024 fully paid, Due for 01/03/2024 is not fully paid at EOD 01/03/2024	1	SMA-0	01/03/24

Due date of payment	Payment date	Payment covers	Age of oldest dues in days	SMA or NPA Classification	SMA or NPA reporting date
01/04/24		No payment of dues of 01/02/24, 01/03/24 and amount dues on 01/04/24 at EOD 01/04/24	60	SMA-1	01/02/24 / 03/03/24
		No payment of dues of 01/02/24 till 01/04/24 at EOD 02/04/24	61	SMA-2	01/02/24 / 02/04/24
01/05/24		No payment of dues of 01/02/24 till 01/05/24 at EOD 01/05/24	90	SMA-2	01/02/24 / 02/04/24
		No payment of dues of 01/02/24 till 01/05/24 at EOD 02/05/24	91	NPA	02/05/24
01/06/24	01/06/24	Fully paid dues of 01/02/24 at EOD 01/06/24	93	NPA	02/05/24
01/07/24	01/07/24	Paid entire dues of 01/03/24 & 01/04/24 at EOD 01/07/24	62	NPA	02/05/24

Due date of payment	Payment date	Payment covers	Age of oldest dues in days	SMA or NPA Classification	SMA or NPA reporting date
01/08/24	01/08/24	Paid entire dues of 01/05/24 & 01/06/24 at EOD 01/08/24	32	NPA	02/05/24
01/09/24	01/09/24	Paid entire dues of 01/07/24 & 01/08/24 at EOD 01/09/24	1	NPA	02/05/24
01/10/24	01/10/24	Paid entire dues of 01/09/24 & 01/10/24	0	Standard account with no overdue	STD from 01/10/24

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