



Prayas Financial Services Pvt. Ltd.

## CONSUMER EDUCATION LITERATURE

June 2023

## Understanding the concepts of Overdue, Special Mention Account (SMA), Non-Performing Asset (NPA) and Upgradation of Loan Account:

In reference to the RBI circular RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated 12th November 2021 and with a view to increase awareness among the borrowers, the above-mentioned critical concepts on account classification are explained below along with an illustration.

i. **Due Date:**

Due dates are the dates, as specified in the loan agreement entered into between a borrower and a lender, on which loan instalments shall be paid by the borrower to the lender.

ii. **Overdue:**

An amount due to be repaid to the lender under the loan agreement entered into between a borrower and a lender is 'overdue' if it is not paid, in full, on the due date. An account is given 'overdue' tag after the day-end process (the process for closing the accounts for the day) is completed by the lender. Typically, lenders complete the day-end process late in the night, every day.

iii. **Special Mention Account:**

An account is classified as SMA account where the borrower has not paid the amount due to a lender, either in whole or in part, on the due date. In other words, there is an overdue in the account. SMA accounts are classified into three categories as specified below:

| SMA category | Account remaining 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 |

iv. **Non-Performing Asset:**

An account which has remained overdue for more than 90 days, is classified as NPA.

v. **Upgradation of an account classified as a NPA to 'Standard' category:**

A loan account will be moved back to 'Standard' category (from NPA category) only when the entire due amount has been paid. In other words, there is no overdue.

The Illustration below shall help understand the above-mentioned concepts clearly.

| Date         |                      | Account Classification | Basis for Classification |
|--------------|----------------------|------------------------|--------------------------|
| Mar 10, 2022 | Due date             | SMA-0                  | Upto 30 days             |
| Apr 9, 2022  | 30 <sup>th</sup> day | SMA-1                  | 31-60 days               |
| May 9, 2022  | 60 <sup>th</sup> day | SMA-2                  | 61-90 days               |
| Jun 8, 2022  | 90 <sup>th</sup> day | NPA                    | More than 90 days        |

**Explanation:**

- i. If the due date is March 10, 2022, and the amount due is not received in full before the day-end process is run, the date of overdue shall be March 10, 2022.
- ii. If the account continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 9, 2022 i.e., upon completion of 30 days of being continuously in overdue. Accordingly, the date of SMA-1 classification for that account shall be April 9, 2022.
- iii. Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running the day-end process on May 9, 2022.
- iv. If the account continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 8, 2022.
- v. The loan account shall remain in NPA status till all unpaid instalments are repaid along with other charges / arrears. The account categorization will not change if partial payments are made by the borrower.
- vi. If the instalments of March 2022 & April 2022 are collectively repaid after June 8, 2022, then the account shall continue to be reported as NPA since the May instalment is not paid.
- vii. If all the unpaid instalments (in the above example, from March till May 2022) are fully paid along with the other charges/arrears, then the account will be upgraded/regularized to 'standard' category.