

## **SMA & NPA CLASSIFICATION**

### **Introduction:**

As per RBI guideline (RBI/2021-2022/125 - DOR.STR.REC.68/21.04.048/2021-22), if a borrower fails to repay EMIs on time, their loan account may be classified as SMA (Special Mention Account) or NPA (Non-Performing Asset). This affects their credit score and is reported to credit bureaus like CIBIL, Experian, and CRIF.

### **SMA Classification (Special Mention Account):**

There are three SMA sub-categories, i.e., SMA-0, SMA-1, and SMA-2

If the borrower fails to repay the principal or interest payment or any other amount wholly or partially for up to 30 days, then the loan account will be classified as SMA-0. If the borrower fails to repay the amount for more than 30 days and up to 60 days, then the account will be classified as SMA-1. If the borrower has a loan overdue for more than 60 days and up to 90 days, then the borrower's loan account will be classified as SMA-2.

SMA Sub-Categories	Basis for Classification:
	<i>(Principal or interest payment or any other amount wholly or partially overdue)</i>
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

### **NPA Classification (Non-Performing Asset):**

When a loan payment is overdue for more than 90 days, the account is classified as a Non-Performing Asset (NPA), triggering severe consequences. For the borrower, this classification can devastate their credit score, severely limiting future borrowing opportunities. Financial institutions may initiate legal proceedings, potentially leading to asset seizures or property attachments. Therefore, timely loan repayments are imperative to avoid serious repercussions.

### **Illustrative Example:**

If the due date of a loan account is March 31, 2024, 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, 2024. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running the 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 the day-end process on May 30, 2024, and if it continues to remain overdue further, it shall get classified as NPA upon running the day-end process on June 29, 2024.

Event	Date	Status
Loan Due Date	31-Mar-24	Loan becomes overdue
30 Days Overdue	30-Apr-24	Tagged as SMA-1
60 Days Overdue	30-May-24	Tagged as SMA-2
90 Days Overdue	29-Jun-24	Classified as NPA