RBI instructions on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, (IRACP) pertaining to Advances dated 12th November 2021

We refer to the RBI circular vide RBI/2021-2022/125 /DOR.STR.REC.68/21.04.048/2021-22 titled **Prudential norms on Income Recognition, Asset Classification and Provisioning (**IRACP) **pertaining to Advances – Clarifications dated 12/11/2021 the following FAQs may be noted:**

1. **What is an Overdue account?**

The instructions on IRACP norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the Company. The due date of the loan is specified in the loan document.

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

The [circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11580&Mode=0) on ‘Prudential Framework for Resolution of Stressed Assets’ requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). The circular clarifies that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

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| **Loans other than revolving facilities** |
| SMA Sub-categories | Basis for classification – Principal or interest payment or any other amount wholly or partly overdue |
| SMA-0 | Upto 30 days |
| SMA-1 | More than 30 days and upto 60 days |
| SMA-2 | More than 60 days and upto 90 days |

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| **Loans in the nature of revolving facilities like cash credit/overdraft** |
| 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 upto 60 days |
| SMA-2 | More than 60 days and upto 90 days |

1. When is the asset classification done ?

The borrower accounts will be flagged as overdue by the Company as part of the day-end processes for the due date. The date of SMA/NPA will reflect the asset classification status of an account at the day-end of that calendar date.

Eg; i. Gold loans under bullet repayment scheme

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| **Eg; A customer avails loan on 01/11/2023 and having date of maturity as 01/11/2024 ( 12 months scheme) under the bullet repayment scheme the SMA /NPA classification will be as below :** |
| **SMA categories** | **Basis for classification – Principal or interest payment or any other amount wholly or partly overdue** | **Dates of classification** |
| SMA-0 | Upto 30 days | SMA 0- As on 01/11/2024  |
| SMA-1 | More than 30 days and upto 60 days | SMA 1- As on 01/12/2024 |
| SMA-2 | More than 60 days and upto 90 days | SMA 2- As on 31/12/2024 |
| NPA | More than 90 days | The loan will be classified as NPA in the End Of Day process on 30/01/2025 |

Eg; ii. Loans with EMI structure

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| **Eg; A customer avails loan on 01/11/2023 and having date of maturity as 01/11/2024 ( 12 months scheme) under the EMI scheme and has paid installments till 01/05/2024 after which no repayments were made, the SMA /NPA classification will be as below :** |
| **SMA categories** | **Basis for classification – Principal or interest payment or any other amount wholly or partly overdue** | **Dates of classification** |
| SMA-0 | Upto 30 days | SMA 0- As on 31/05/2024  |
| SMA-1 | More than 30 days and upto 60 days | SMA 1- As on 30/06/2024 |
| SMA-2 | More than 60 days and upto 90 days | SMA 2- As on 30/07/2024 |
| NPA | More than 90 days | The loan will be classified as NPA in the End Of Day process on 29/08/2024 |

Loans with EDI repayment structure

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| **Eg; A customer avails loan on 01/11/2023 under EDI scheme of 122 days . The commencement of first EDI is on 01/11/2023. Customer has not made any repayments from 02/11/2023, the SMA /NPA classification will be as below :** |
| **SMA categories** | **Basis for classification – Principal or interest payment or any other amount wholly or partly overdue** | **Dates of classification** |
| SMA-0 | EDI Due Date | SMA 0- As on 02/11/2023 |
| SMA-1 | EDI Due Date +30 days | SMA 1- As on 02/12/2023 |
| SMA-2 | EDI Due Date +60 days | SMA 2- As on 01/01//2024 |
| NPA | More than 90 days | The loan will be classified as NPA in the End Of Day process on 31/01/2024 |

1. Is it applicable to all loans?

Yes. The instructions on SMA/NPA classification of borrower accounts are applicable to all loans including retail loans, irrespective of size of exposure of the lending institution.

1. How is the NPA classification of interest payments?

In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

1. Will the SMA/NPA classification of borrower accounts change according to schemes

Yes.

1. How can a customer know the SMA/NPA classification applicable ?

The applicable classifications are notified in the loan document.

1. What is the effective date of applicability of instructions?

The instructions are effective from March 31st 2022. Accordingly, in respect of any borrower account which becomes overdue on or after March 31, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.

1. On repayment of dues when will an account be reclassified?

It is clarified that loan accounts classified as NPAs may be upgraded as ‘standard’ asset only if entire arrears 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