



Income Recognition, Asset Classification and Provisioning of Advances

Customer Education Manual on Stress/SMA/NPA Marking Process.

1. What is a Stressed Account?

Amount of interest/installments that are required to be paid by the borrowers are mentioned in the Sanction Letter. If the EMI/Installments/Interest is not paid /regularized on due date as per the terms and conditions of loan sanction, the accounts are identified as stressed accounts.

2. What are Special Mention Account (SMA)?

Special Mention Accounts are those accounts which show symptoms of stress within the 90 days period, before the account is classified as NPA. On identification of stress in the accounts on 1st day of default, they are labelled as Special Mention Accounts (SMA).

3. How SMA are categorized?

SMA's are classified under the following sub categories as SMA-0, SMA-1 & SMA-2:

Category	Term Loans other than revolving facilities	In case of revolving credit facilities like cash credit/overdraft
SMA Sub Categories	Basis for classification – Principal or interest payment or any other amount wholly or partially overdue for ;	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	1-30 days	-----
SMA-1	31-60 days	31-60 days
SMA-2	61-90 days	61-90 days



4. How Bank recognizes Non- Performing Asset:

In accordance RBI's Master Directives a Non-Performing Asset (NPA) is a loan or an advance where:

- a. Interest and/ or installment of principal remains overdue for a period of more than 90 days in respect of term loan.
- b. The account remains '**out of order**' in respect of an Overdraft/Cash Credit (OD/CC).
- c. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

A CC/OD account shall be treated as "out of order" if :

- i. the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii. 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.

5. Whether an account will become an NPA if the review / renewal of regular / ad-hoc credit limits are not done when due? What should be periodicity of review / renewal to decide the present status of an account?

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.

6. Whether a working capital account will become an NPA if the stock statements are not submitted regularly? What should be the period for which the stock statements can be in arrears before the account is treated as an NPA?

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 is for a continuous period of 90 days.

7. What is difference between the terms of 'Due' & 'Overdue'. How are they different? When will accounts be flagged as overdue?

These terms are used to denote principal / interest / any charges levied on the loan account as under:



i.Due:

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.

ii.Overdue:

The principal / 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 i.e. Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the Bank and its customer.

8. When is the NPA classification process undertaken by the Bank?

The identification of NPAs is done on an on-going basis and accounts are classified as NPA immediately, as soon as they turn into NPA. The NPA marking is executed by the Bank on a daily basis as a part of day end process.

9. Whether all loan accounts of the borrower is classified as NPA if one of his loan account turns NPA?

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

10. How borrower accounts are upgraded to regular status after being classified as NPA?

A loan account, classified as NPA will be upgraded to Standard Asset only upon regularization of the entire overdue amount in the loan/ CC/OD accounts of the borrower.

11. What is the impact on borrower's credit rating?

Primary (Urban) Co-operative banks (UCBs) having total assets of Rs.500 crore and shall report credit information, including classification of an account as Special Mention Account (SMA),/ NPA on all borrowers having aggregate exposures of 5 crore and above with them to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank. Aggregate exposure shall include all fund-based and non-fund based exposure.

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