

RBI instructions on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining (IRACP) to Advances

Frequently Asked Questions (FAQs)

With a view to ensure uniformity in implementation of IRACP norms, the Reserve Bank of India vide its circular dated 12th November 2021 and 15th February 2022 provided certain clarifications and instructions on income recognition, asset classification and provisioning pertaining to advances. Please find some common questions that may help you understand this better.

1. What is the meaning of the 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/loan.

2. What is the meaning of the term “over-dues”?

“Over-dues” 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 “Overdue” in the context of a loan with any lending institution?

Any amount due to the lending institution under the credit facility is ‘overdue’ if it is not paid on or before the due date fixed by the lending institution

4. What is a ‘stressed’ account?

Borrowers are required to pay the EMI / instalment / interest at periodic intervals as per the terms agreed before availing the loan. In case such EMI / instalment / interest dues are not paid on or before the due date on agreed terms, such an account is called a ‘stressed account’.

5. What is a Special Mention Account (SMA)?

A loan account showing symptoms of stress as evidenced by a default in payment of dues will be classified as a “Special Mention Account (SMA)”. Such accounts if not regularized within 90 days gets classified as ‘Non Performing Asset (NPA)’.

6. How is a SMA categorized?

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

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

7. What are Non-Performing Assets?

In a credit facility/ies where stress/delinquency/short comings as indicated below are observed, such borrowal accounts, are classified as Non-Performing Assets (NPAs)

- a. Interest and/or installment or principal remains overdue for a period of more than 90 days in respect of a term loan,
- b. The bill remains overdue for a period of more than 90 days in the case of bills purchased/discounted.
- c. Agricultural Loans: The instalment of principal or interest thereon remains overdue for two crop seasons in respect of short duration crops and remains overdue for one crop season in respect long duration crops.
- d. The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC) facility as under:
 - The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
 - 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 (inclusive of the day for which the day-end process is being run)
- e. An account where the regular / ad hoc credit limits have not been reviewed/renewed within 180 days from the due date / date of ad-hoc sanction
- f. Where Loans / limits have been sanctioned against the Security of Stock & Book debt, and, in such cases, if the position of such Stock & Book debts is not submitted to the lenders to determine the drawing power, the outstanding in the account based on the Drawing Power calculated from Stock & Book Debts statement older than three months would be deemed as 'irregular', and, if such irregularity exists for a continuous period of 90 days, the account will be classified as 'NPA'

8. Can you give me an example for classification of a loan as SMA-0, SMA-1, SMA-2 and NPA:?

- SMA-0 - If the due date of your loan account is 31-03-2022, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be 31-03-2022 and the account shall be SMA-0 on day end of 31-03-2022.
- SMA-1 - If your account continues to remain overdue, then this account shall get tagged as SMA-1 upon running the day end process on 30-04-2022 i.e. completion of 30 days of being

continuously overdue i.e. 30-04-2022. Accordingly, the date of SMA-1 classification for that account shall be 30-04-2022.

- SMA-2 - If your account continues to remain overdue, it shall get tagged as SMA-2 upon running the day end process on 30-05-2022
- NPA – If your account continues to remain overdue further, it shall get classified as NPA upon running the day-end process on 29-06-2022

8.2 When does an account in the nature of revolving facilities like cash credit / overdraft the account turn into an NPA?

- 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'. (Note: The 'previous 90 day period' for determination of 'out of order' status of CC/OD account shall be inclusive of the day for which the day-end process is being run by the lending institution)

8.3 Renewal Pending:

Regular and ad hoc credit limits need to be reviewed / regularized not later than three months from the due date/ date of ad hoc sanction. 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. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular / ad hoc credit limits have not been reviewed / renewed within 180 days from the due date / date of ad hoc sanction will be treated as NPA.

If the due date for renewal is 31-03-2022 and if the limit is not renewed till 26-09-2022, such an account will be classified as NPA during the day end process run on 26-09-2022.

8.4 Non submission of Stock & Book Debt Statement:

If a CC/OD account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate lenders to determine Drawing Power under the account. The outstanding in the account based on the Drawing Power calculated from the Stock & Book debt statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA

9. At what periodicity can the bank/lending institution undertake the classification of accounts as SMA or NPA?

Lending institutions undertake the process of classification of Accounts as SMA/NPA on daily basis during the day-end process.

10. Will all my loan accounts be classified as NPA even if one of the loan accounts turns NPA?

Yes, NPA classification is borrower wise and not account wise. Hence, if even if one of your loan accounts is classified as NPA, all your other loan accounts will also be classified as NPA

11. Will the amount I pay/deposit during the day be considered during the NPA marking process?

Credits received before the day-end processes are considered for calculation of delinquency at the time of undertaking the asset classification process. Any credit received subsequently will be treated as receipts for the subsequent day.

12. How will my account be 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 all loan accounts of the borrower having arrears and rectification of attendant irregularities relating to review/renewal of Stock & Book debts of the borrowal accounts.

13. What will be the impact on me/my account (the borrower) if the account slips to Stress/NPA?

As per the regulatory guidelines, Banks have to be report stress/default NPA to Central Repository Information of Large Credit (CRILC), Credit information companies etc from time to time. This will impact the credit history of the borrowers and attendant repercussions.

(Note: Kindly note that the details stated above is illustrative in nature and these norms and clarifications from the Reserve Bank of India will prevail for implementation from time to time)