



**Guidelines on Income Recognition, Asset Classification and Provisioning**

RBI has published its circular dated November 12, 2021 (RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22) to ensure uniformity in implementation of Income Recognition, Asset Classification and Provision pertaining to Advances for the lending institutions. The circular is applicable for: -

- All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
- All Primary Co-operative Banks
- All-India Financial Institutions (Exim Bank, NABARD, NHB and SIDBI)
- All Non-Banking Financial Companies (including Housing Finance Companies)

The circular requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA).

In order to remove any ambiguity, SMA is classified into below categories.

**A. Specification of due date/repayment date**

The extant 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 bank. The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement/loan card and the borrower shall be apprised of the same at the time of loan sanction

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

- SMA 0: Customer shall be fall in SMA 0 category if any of her loan facility is in overdue up-to 30 days.
- SMA 1: Customer shall be fall in SMA 1 category if any of her loan facility is in overdue for more than 30 days up-to 60 days.
- SMA 2: Customer shall be fall in SMA 2 category if any of her loan facility is in overdue for more than 60 days up-to 90 days.
- NPA: Customer shall fall under NPA if any of her loan facility is in overdue for more than 90 days.

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	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-0	Upto 30 days		
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

NPA status of the loan shall change only when the entire arrear i.e. principal and interest is paid by the borrower. Asset classification shall be done borrower-wise and not facility – wise. It is also applicable for Restructured loan (if any).

Example: If due date of a loan account is March 31, 2021, 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, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 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, 2021

The above instructions on SMA classification of borrower accounts are applicable to all active loans, irrespective of size of exposure.

#### **C. Clarification regarding definition of ‘out of order’**

Cash credit/Overdraft (CC/OD) account is classified as NPA if it is ‘out of order’. In cases account should be treated as ‘out of order’ if there are no credits continuously for 90 days as on the date of Balance Sheet

#### **D. NPA classification in case 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.

#### **E. Upgradation of accounts classified as NPAs**

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.

#### **F. Income recognition policy for loans with moratorium on payment of interest**

In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as ‘standard’. It is clarified that if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

### **G. Consumer Education**

With a view to increase awareness among the borrowers, SCNL has updated the terms & conditions of SMA and NPA classification on Loan Cards, Group Loan Application Form and Loan Application sheet. For new clients SCNL has updated the same in CGT & GRT module.

**For detailed RBI circular, pls refer**

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12194&Mode=0>