



Knowledge Resource

Explanation of few key concepts as per Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (**Prudential Norms**) issued by the Reserve Bank of India (**RBI**).

Date of overdue

An amount is to be treated as overdue if it is not paid on or before the exact due date fixed as per the financing agreement with the customer. 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 even if it is run before midnight, the date of overdue shall be March 31, 2021. Thus, the account would be overdue even if full dues are only able to be received by 11PM after the day-end process was run at 6PM on March 31, 2021.

SMA and NPA classification and upgradation

Prudential norms require all lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (**SMA**). SMA sub-categories and the basis for classification viz. principal or interest payment or any other amount wholly or partly falling overdue on loans (not in the nature of revolving facilities), are set out below.

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

A borrower account which becomes overdue for more than 90 days shall be classified as a Non-Performing Asset (**NPA**).

Borrower accounts shall be flagged as SMA or NPA as per the above definitions as part of the day-end processes for the due date. Thus, SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. 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 the account 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.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

Further, from October 1, 2022 onwards, accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the customer. In the above example, unless the entire arrears of principal and interest are paid on or after June 30, 2021, the account cannot be upgraded as 'standard' asset.

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