

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

1. What is a Stress Account?

Amount of interest/installments are required to be repaid by the borrowers as stipulated in the Sanction Order. If the same is not adhered to or a Borrower's loan account where EMI/Installments are not paid /regularized on due date as per the terms and conditions of loan sanction, such accounts are called stress accounts.

2. What are Special Mention Account (SMA)?

Special Mention Accounts are those accounts which show symptoms of bad asset quality in the first 90 days of its due itself or before it is classified as NPA. On identification of incipient stress in the loan accounts immediately on default, Bankers/Lenders classify such assets as special mention accounts (SMA).

3. How SMA are categorized?

SMAs are classified under following Sub-categories based on Day Past Due (DPD);

| 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 between; | 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 | Up to 30 days | | |
| SMA-1 | More than 30 days and up to 60 days | SMA-1 | More than 30 days and up to 60 days |
| SMA-2 | More than 60 days and up to 90 days | SMA-2 | More than 60 days and up to 90 days |

4. What are Non-performing Assets:

In a credit facility/ies where stress/delinquency/ short comings as specified under Sl. No. 5 are observed, such borrowal accounts are classified as Non- Performing Assets (NPA).

5. How Bank recognizes Non- Performing Asset:

Bank classifies the borrowal account as NPA if following delinquencies / deficiencies are observed in the borrowal account;

- a. Interest and/ or installment of 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 and discounted,
- c. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- d. The installment of principal or interest thereon remains overdue for one crop season for long duration crops.
- e. The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC) limits. Overdraft/Cash Credit is classified 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. Previous 90 days period shall be inclusive of the day for which the day-end process is being run.
- f. The account is not renewed within 180 days from the due date of the limit.
- g. Loans/Limits are sanctioned against Hypothecation of Stock & Book debts and Stock & Book Debts Statements are not submitted for 3 months from the due date of submission.

Examples for classification of accounts as SMA-0, SMA-1, SMA-2 and NPA:

- i. **Non Payment of EMI/Installment:** In a loan account if EMI/Installment/Interest is due on 31-03-2023, stress count starts from 31-03-2023 and the account continues as SMA-0 till 29-04-2023, if dues are not cleared by the borrower. If it continues to remain overdue, the account will be classified as SMA-1 from 30-04-2023 to 29-05-2023 & shall

get tagged as SMA-2 from 30-05-2023 and will be classified as NPA during EOD process of 29-06-2023.

ii. Out of Order Account:

a. If the outstanding balance in an overdraft account is more than the sanctioned limit since 31-03-2023 and overdrawing continues for more than 30 days, such overdraft account is classified as SMA-1 from 30-04-2023 to 29-05-2023. Similarly, if the account continues to remain overdrawn it shall get tagged as SMA-2 from 30-05-2023 to 28-06-2023 and will be classified as NPA during EOD process on 29-06-2023.

b. If the outstanding Balance in the Overdraft account is less than the sanctioned limit/ Drawing power, however Credit in the OD account from 03-07-2023 to 30-09-2023 is Rs. 25000/- and interest debited during the same period is Rs. 32000/- , in such cases OD account will be classified as NPA during EOD process on 30-09-2023.

iii. 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.

An overdraft account of the borrower is due for renewal on 31-03-2023 and borrower has submitted renewal papers to Branch and limit is not renewed, the said Overdraft account will be classified as NPA during EOD process on 27-09-2023.

iv. Non Submission of Stock & Book Debt Statement: An overdraft account sanctioned against hypothecation of stock & book debts and due date of submission of stock and book debt statement is 7th of each month/ 15th in case of OD accounts under consortium/multiple banking arrangement. If borrower has not submitted the stock and book debts statement from 07-04-2023, said account will be classified as NPA during EOD process on 07-07-2023.

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

NPA marking process is executed by the bank during the End of the Day (EOD) process each day after 10.00 PM.

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

Yes, NPA classification is borrower wise and not account wise. Hence if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower are also will be classified as NPA. In case of proprietorship firms, loan accounts of individual borrowers are classified as NPA when loans availed by them in the name of their proprietary firm turn NPA or vice-versa.

8. Whether amount paid/deposited during the day is considered during the NPA marking process ?

Credits received up to 10 PM are considered for calculation of delinquency at the time of executing NPA marking process. Any credit received subsequently are treated as recoveries for the next day.

9. 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 all loan accounts of the borrower having arrears.

10. What is the impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines Bank has to report Stress/Default /NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time and there will be adverse effect on his credit score/creditworthiness. Banker/lender will force the borrower to repay or initiate liquidation of mortgaged assets which will result in fetching lower price on sale. Also borrower may have to face legal consequences if the Banker /Lender files suit for recovery etc.
