

1. PREFACE

Reserve Bank of India (RBI) vide its circular dated November 12, 2021 on Prudential norms on Income Recognition, Asset classification and provisioning pertaining to Advances (IRACP norms) harmonized /clarified certain aspects of the extant regulatory guidelines applicable to NBFCs in order to ensure uniformity in the implementation of IRACP norms across all lending institutions.

With a view to increase an awareness among the borrowers, RBI requires the NBFCs to frame Consumer Education Literature explaining with examples the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process.

2. CONSUMER EDUCATION LITERATURE

a. Overdue and date of overdue:

Any amount due to the Company under any credit facility shall be treated as overdue if it is not paid on the due date fixed by the Company. Borrower accounts shall be flagged as overdue by the Company as a part of the day- end process for the due date and date of overdue shall be calendar date for which the day-end process is run.

Example: If the due date of a loan account is March 31, 2021 and full dues are not received before the Company runs the day-end process for this date, the date of overdue shall be March 31, 2021.

b. Classification as Special Mention Account (SMA):

- Classification of the borrower accounts as SMA shall be done as part of day-end process for the relevant date and the SMA classification date shall be the calendar date for which the day-end process is run.
- The basis for classification of SMA categories shall be as follows:

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

Example: If due date of a loan Account is March 31, 2021, and full dues are not paid by the borrower till April 30, 2021 then the borrower account will be classified as SMA-1 as on April 30, 2021 upon running day-end process on April 20, 2021. If the Loan Account of the borrower continues to remain overdue even after April 30, 2021 and full dues are not paid by the borrower till May 30, 2021 then the borrower account will be classified as SMA-2 on May 30, 2021. i.e upon completion of 60 days of being continuously overdue.

Classification as Non-Performing Asset (NPA):

Classification of the borrower accounts as NPA shall be done as part of day-end process for the relevant date and the NPA classification date shall be the calendar date for which the day-end process is run.

NPA means:

- an asset, in respect of which, interest has remained overdue for a period of more than 90 days;
- a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days;
- a demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days;
- a bill which remains overdue for a period of more than 90 days;
- the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of more than 90 days;
- any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days;
- the lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days
- in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset.

Example: If the due date of a loan Account is March 31, 2021 and if it continuous to remain overdue till June 29, 2021, then the borrower account will be classified as NPA as on June 29, 2021 upon running day-end process on June 29, 2021.

c. Upgradation of accounts classified as NPA:

- In all cases except special restructuring cases, loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- Any partial payment, such as payment of only interest or only one instalment, shall not result in the upgradation of the loan account.
- In case if the borrower is having more than one credit facilities, the loan account will be upgraded from NPA to standard category only when entire principal and interest outstanding amount pertaining to all credit facilities is paid by the borrower.
- No delinquency should be present in any of the credit facilities availed by the borrower from the Company.