

RBI instructions on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances.'

With reference to the circular dated **12th November, 2021** issued by RBI circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 on '*Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications*'

In view to create Customer Awareness on Classification as Special Mention Account (SMA) And Non-Performing Asset (NPA) the following clarifications:

1. Clarification on 'Overdue'

An amount is to be treated as 'Overdue' if it is not paid on the due date fixed by MHFCL.

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

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated 7th June, 2019 on 'Prudential Framework for Resolution of Stressed Assets' requires the lenders to recognise incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). It is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

Classification as on day end	Principal or interest payment or any other amount wholly or partly overdue i.e. pending (Days Past Due Status)
SMA-0	1- 30 days
SMA-1	31- 60 days
SMA-2	61-90 days
NPA	More than 90 days

Accordingly, the date of SMA/NPA shall reflect the asset classification status of the loan account, at the day-end of that calendar date. An *example* of such classification is as follows:

- ❖ **SMA 0** - If due date of a loan account is 31st March, 2021, and full dues are not received on this date, the account shall be SMA 0 on day end of 31st March, 2021.
- ❖ **SMA 1** - If the account continues to remain overdue, then this account shall get tagged as SMA-1 upon completion of 30 days of being continuously overdue i.e. 30th April, 2021.
- ❖ **SMA 2** - If the account continues to remain overdue, it shall get tagged as SMA-2 on 30th May, 2021
- ❖ **NPA** - If the account continues to remain overdue further, it shall get classified as NPA on 29th June, 2021

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes.

3. NPAs may be upgraded as 'Standard' asset only if **entire arrears** of interest and principal will be received from the borrower i.e. when Days Past Due ('DPD') becomes 0 (Zero).
4. MHFCL shall mention above information in Sanction Letter/Loan Agreement, wherever applicable;
 - ✓ Exact due dates for repayment of a loan
 - ✓ Frequency of repayment
 - ✓ Examples of SMA/NPA classification dates
 - ✓ Exact date of commencement of repayment, in case of loan facilities with moratorium.
5. The above inclusion will be made, in respect of fresh loans. In case of existing loans, however, the above inclusion will be made, when such loans become due for renewal/review.
6. MHFCL shall impart training to employees of the company, to make the customer aware about overdue, SMA/NPA Classification, DPD Status etc.

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