

## **CONSUMER EDUCATION LITERATURE**

RBI had issued clarification on 12<sup>th</sup> November 2021 and 15<sup>th</sup> February 2022 vide RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 and RBI/2021-2022/158 DOR.STR.REC.85/21.04.048/2021-22 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances applicable to all Non-Banking Financial Companies (including Housing Finance Companies).

With a view to ensure uniformity in the implementation of IRACP norms across all lending institutions, certain aspects of the extant regulatory guidelines are clarified and/or harmonized via this clarification.

Below is the detailed writeup on date of overdue, SMA and NPA classification and upgradation of NPA and day-end process for calculation of calculation of the same.

### **1. DUE DATE/REPAYMENT DATE**

It is the date on which the principal / interest / any charges levied on the loan account are payable as mentioned in the sanction terms/loan agreement.

### **2. OVERDUE AND DATE OF OVERDUE**

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

Example: If the due date of a loan account for making repayment is March 31, 2023, and full dues are not received before Midland Microfin Limited runs the day-end process for this date, the date of overdue shall be March 31, 2023.

### **3. RELEVANCE OF THE PRINCIPLE OF 'FIRST IN FIRST OUT' (FIFO) IN APPROPRIATION OF PAYMENTS INTO THE BORROWER ACCOUNT:**

The Principle of FIFO accounting method is relevant to arrive at the No. of days of overdue for determining the SMA/ NPA status. The FIFO principle assumes that the oldest outstanding dues in the loan account needs to be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first.

### **4. CLASSIFICATION AS SPECIAL MENTION ACCOUNT (SMA)**

Classification of the borrower account 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:

<b>TERM LOANS</b>	
SMA Categories	Sub- 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

## 5. CLASSIFICATION AS NON-PERFORMING ASSET (NPA)

A Non-Performing Asset (NPA) is a loan where interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.

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

### **Example-1: For Classification of SMA & NPA**

*If due date of a loan account is March 31, 202X, and full dues are not received before the day-end process for this date, the date of overdue shall be March 31, 202X. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 202X 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, 202X.*

*Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 202X and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 202X.*

### **Example-2: For Classification of SMA & NPA**

Monthly Due Date	Payment Status	Days Overdue	Upon Running day end process	SMA/NPA Classification
April 05, 202X	Amount due on 05 April-202X not paid in Full	Upto 30 days	April 05, 202X	SMA-0
	Amount due on 05-April-202X still not paid in full and the subsequent due amount also not paid	More than 30 days and upto 60 days	May 05, 202X	SMA-1
	Amount due on 05-April-202X still not paid in full and the subsequent due amount also not paid	More than 60 days and upto 90 days	June 04, 202X	SMA-2
	Amount due on 05-April-202X still not paid in full and the subsequent due amount also not paid	More than 90 days	July 04, 202X	NPA

## 6. Upgradation of Accounts classified as Non-Performing Asset (NPA):

The loan account classified as NPA can be upgraded as “**Standard**” only if the entire arrears of interest, principal and any other amount due are paid in full and there is NIL arrears upon running day end process of that calendar date.

For detailed guidelines on asset classification and provisioning, please refer to the RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as amended. The above asset / SMA classification norms are subject to changes as per regulatory instructions issued from time to time.

**7. IMPACT OF SMA CLASSIFICATION ON CIBIL/ CREDIT REPORT:**

Any delinquency in the loan account as mentioned above is reported to Credit Information Companies and credit score of the customer shall get impacted adversely.

**Please note that the aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios and that the IRACP norms and clarifications provided by RBI on the subjects referred above shall prevail.**

Should you require any clarifications or assistance, please reach us at [cs@midlandmicrofin.com](mailto:cs@midlandmicrofin.com)

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