



PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING (IRACP), PERTAINING TO ADVANCES IS ISSUED BY RBI ON NOVEMBER 12, 2021, AND FEBRUARY 15, 2022.

For spreading the awareness in the borrowers, placed below are important points and clarifications of Special Mention Account (SMA) / Non-Performing Asset (NPA) classification.

Objective - Vide above dated circular RBI wish to bring about uniformity and common understanding regarding the implementation of the guidelines on IRACP.

When Bank classify loan accounts as Special Mention Account (SMA) and Non-Performing Asset (NPA) immediately. Basis are

A. The Bank classifies the borrower as SMA/NPA based on the extant Regulatory guidelines. The same is explained hereunder:
Classification as Special Mention Account (SMA):

Lending institutions will recognize the incipient stress in loan accounts, immediately on default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA / NPA category shall be as follows: Loans other than revolving facilities		Loans in the nature of cash credit / overdraft	
SMA sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue.	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	NA	NA
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



B. Non-Performing Asset:

As per the above circular a Non-Performing Asset (NPA) is a loan or an advance where:

- a. interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan
- b. the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC)
- c. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted

Account be treated as 'Out of Order'

An account shall be treated as 'out of order' if:

- a. The outstanding balance in the CC / OD account remains continuously in excess of the sanctioned limit / drawing power for 90 days, or
- b. 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.

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the Bank part of their day-end (EOD) processes for the due date, irrespective of the time of running

Due Means - the principal/interest/ any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

Overdue Means - the principal / interest / any charges levied on the loan account which are payable but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, any amount due to the Bank under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the Bank and its customer.

Accounting method used by Bank to arrive at the number of days overdue for determining the SMA/NPA status

The Principle of FIFO i.e., 'First In, First Out' accounting method is applicable to arrive at the No. of days of overdue for determining the SMA / NPA status. FIFO principle assumes, 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.



NPA to Standard Account When -

It is clarified that loan accounts classified as NPAs are upgraded to 'Standard' asset only if the entire arrears of interest and principal pertaining to all the credit facilities are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of Date of Commencement of Commercial Operations (DCCO), etc., the instructions as per the specific regulatory circular will continue to be applicable

Learn by Example-

Please find below example wherein movement of an account to SMA category to NPA category based on delay I Non-payment of dues and subsequent upgradation to Standard category at day end

Process: Due date of payment	Payment date	Payment Covers	Age of oldest dues in day	SMA/NPA Categorization on	SMA since date/ SMA Class date	NPA categorize action	NPA Date
01.01.2022	01.01.2022	Entire dues up to 01.01.2022	0	Nil	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA-0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA-0	01.02.2022	NA	NA
		Dues of 01.02.2022 not fully paid, Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA-1	1.02.2022/3.03.2022	NA	NA
		Dues of 01.02.2022 fully paid , Due for 01.03.2022 not fully paid at EOD 1.03.2022	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022, 01.03.2022 an amount due on 01.4.2022 at EOD 1.04.2022	60	SMA-1	1.02.2022/3.03.2022	NA	NA



Process: Due date of payment	Payment date	Payment Covers	Age of oldest dues in day	SMA/NPA Categorization on	SMA since date/ SMA Class date	NPA categorize action	NPA Date
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA-2	01.02.2022/02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.22 at EOD 01.05.2022	90	SMA-2	01.02.2022/02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.05.22 at EOD 02.05.2022	91	NPA	Na	NPA	02.05.2022
01.06.2022	01.06.2022	Fully Paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	Na	NPA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 1.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	Na	NPA	02.05.2022
01.08.2022	01.08.2022	Paid entire dues of 1.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	Na	NPA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 1.09.2022	1	NPA	Na	NPA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with no overdue	Na	NA	STD from 01.10.2022

The examples quoted above are illustrative and not exhaustive in nature and relate to general scenarios.

For any queries, kindly connect with the nearest Branch or you can write to us at advance@mucbank.com.

Important Links:

1.Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs – Notification dated 01,2021

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12185&Mode=0>

2. Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated Nov 12,2021

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12194&Mode=0>

3. Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated Feb 15,2021

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12230&Mode=0>