

Key concepts on loan overdue and asset classification for overdue credit facilities as Special Mention Account (SMA) and Non-Performing Asset (NPA)

Mizuho Bank, Ltd- India

1. Key concepts on loan overdue and asset classification for overdue credit facilities as Special Mention Account (SMA) and Non-Performing Asset (NPA)

1. Definitions

Dues	:	Dues 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	:	Any amount due to the bank (principal/interest/ any charges) levied on loan account/ credit facility is 'overdue' if it is not paid on the due date fixed by the bank as per the terms of sanction of credit facility.																				
Stressed Account	:	Principal/interest/charges is required to be paid at periodic intervals as per the terms agreed before availing of the loan. In case such principal/interest/charges are not paid on or before the due date on agreed terms, such account is called as a 'stressed account'.																				
Special Mention Account (SMA)	:	<p>A stressed loan account having irregularity/default between 1 to 90 days- is treated as Special Mention Account (SMA). Banks are required to recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the category mentioned below:</p> <table border="1"> <thead> <tr> <th colspan="2">Loans other than revolving facilities</th> <th colspan="2">Loans in the nature of Overdraft/Cash Credit (OD/ CC)</th> </tr> <tr> <th>SMA Sub-categories</th> <th>Basis for classification- Principal or interest payment or any other amount wholly or partly overdue</th> <th>SMA Sub-categories</th> <th>Basis for classification- Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:</th> </tr> </thead> <tbody> <tr> <td>SMA-0</td> <td>Up to 30 days</td> <td>-</td> <td>-</td> </tr> <tr> <td>SMA-1</td> <td>More than 30 days and up to 60 days</td> <td>SMA-1</td> <td>More than 30 days and up to 60 days</td> </tr> <tr> <td>SMA-2</td> <td>More than 60 days and up to 90 days</td> <td>SMA-2</td> <td>More than 60 days and up to 90 days</td> </tr> </tbody> </table>	Loans other than revolving facilities		Loans in the nature of Overdraft/Cash Credit (OD/ CC)		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	-	-	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
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Non-Performing Asset (NPA)	:	<p>Non-Performing Asset (NPA) is a loan or an advance where:</p> <p>a) interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan; or</p> <p>b) the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC); or</p>																				

		<p>c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted; or</p> <p>d) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops; or</p> <p>e) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.</p>
Out of order for Overdraft/ Cash Credit (OD/CC)	:	<p>OD/CC account shall be treated as 'out of order' if:</p> <p>a) the outstanding balance in the OD/CC account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or</p> <p>b) the outstanding balance in the OD/CC account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or</p> <p>c) the outstanding balance in the OD/CC 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.</p>
Categories of NPA	:	<p>NPA are classified under following three categories based on the period for which the asset has remained non performing and the realisability of the dues:</p> <p>a) Substandard asset: Loan account/credit facility that has remained NPA for a period of less than or equal to 12 months.</p> <p>b) Doubtful asset: Loan account/credit facility if it has remained in the substandard category for a period of 12 months i.e. NPA for more than 12 months.</p> <p>c) Loss asset: Loan account/credit facility is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.</p>

2. Other points related to NPA/ SMA classification

- a) **Asset Classification to be borrower-wise and not facility-wise:** In case any one of the credit facility granted by a bank to a borrower becomes NPA, all the credit facilities granted to a borrower by that bank shall be treated as NPA.
- b) **Non-renewal/ review of credit limits:** A credit facility where the regular/ ad-hoc credit limits have not been reviewed/renewed within 180 days from the due date/ date of ad-hoc sanction- shall be classified as NPA.
- c) **Non submission of stock statements:** For loans sanctioned against the security of stock & book debts, if Stock Statement for determining Drawing Power is older than three months, the account would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account shall be classified as NPA.

- d) **Upgradation of loan accounts classified as NPAs:** Loan accounts classified as NPAs can be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- e) **Flagging of borrower account as NPA/ SMA:** Borrower account is flagged as overdue by the bank as part of their day-end processes for the due date. Accordingly, classification of borrower accounts as SMA as well as NPA is done as part of day-end process for the relevant date. Any credit received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credit received subsequently are treated as receipts for the subsequent day. **For example-** *If a loan instalment due on March 1, 2022- is not paid on March 1 till day end, after day end on March 1, 2022, the borrower account classification shall be SMA-0.*
- f) **Relevance of the Principle of 'First-In-First-Out' (FIFO) in appropriation of payments into the borrowal account:** The principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the number 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 borrowing entity first.
- g) **Reporting requirements:** As per the RBI guidelines, banks are required to report stress/default/ NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies (CICs); etc. from time to time which impact the credit history of the borrowers and attendant repercussions.

For example:

- *If in any loan account as on Feb 1, 2022 there is no overdue and an amount of INR X is becoming “due” for payment towards principal instalment/interest/charges, then any payment being credited on or after 1 Feb 2022 in the loan account will be used to pay off the dues outstanding as on Feb 1, 2022.*
- *Assuming that nothing is paid or there is partial payment (INR Y) of dues during the month of February, the overdue as on March 1, 2022 will be INR X-Y.*
- *Additionally, an amount of INR Z becomes due as on March 1, 2022. Now any payment/ partial payment into the account on or after March 1, 2022 will be first utilized to pay off the partial due of Feb 1, 2022 (INR X-Y)*
- *If there is more recovery than the INR X-Y, then after recovering dues of Feb 1, 2022, the remaining amount will be treated as recovery towards due of March 1, 2022.*

The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the aforesaid illustration, if the dues relating to Feb 1, 2022 remains unpaid till March 1, 2022, the age of the oldest dues is reckoned as 29 days on March 2, 2022.

3. Illustrative movement of an account to SMA/NPA category based on delay/ non-payment of dues and subsequent up-gradation to Standard category at day end process

Due date of payment	Payment date	Payment covers	Age of oldest dues in days	SMA/ NPA categorisation	SMA since Date/ SMA class date	NPA categorisation	NPA Date
Jan 1, 2022	Jan 1, 2022	Entire dues up to Jan 1, 2022	0	NIL	NA	NA	NA
Feb 1, 2022	Feb 1, 2022	Partly paid dues of Feb 1, 2022	1	SMA-0	Feb 1, 2022	NA	NA
Feb 1, 2022	Feb 2, 2022	Partly paid dues of Feb 1, 2022	2	SMA-0	Feb 1, 2022	NA	NA
March 1, 2022		Dues of Feb 1, 2022 not fully paid, March 1, 2022 is also due at EOD March 1, 2022	29	SMA-0	Feb 1, 2022	NA	NA
		Dues of Feb 1, 2022 fully paid, dues for March 1, 2022 not paid at EOD March 1, 2022	1	SMA-0	March 1, 2022	NA	NA
		No payment of full dues of Feb 1, 2022 and March 1, 2022 at EOD March 3, 2022	31	SMA-1	Feb 1, 2022/ March 3, 2022	NA	NA
		Dues of Feb 1, 2022 fully paid, dues for March 1, 2022 not fully paid at EOD March 1, 2022	1	SMA-0	March 1, 2022	NA	NA
April 1, 2022		No payment of dues of Feb 1, 2022, March 1, 2022 and amount due on April 1, 2022 at EOD April 1, 2022	60	SMA-1	Feb 1, 2022/ March 3, 2022	NA	NA
		No payment of dues of Feb 1, 2022 till April 1, 2022 at EOD April 2, 2022	61	SMA-2	Feb 1, 2022/ April 2, 2022	NA	NA
May 1, 2022		No payment of dues of Feb 1, 2022 till May 1, 2022 at EOD May 1, 2022	90	SMA- 2	Feb 1, 2022/ April 2, 2022	NA	NA
		No payment of dues of Feb 1, 2022 till May 1, 2022 at EOD May 2, 2022	91	NPA	NA	NPA	May 2, 2022
June 1, 2022	June 1, 2022	Fully paid dues of Feb 1, 2022 at EOD June 1, 2022 (Dues of March 1, 2022 onwards are still unpaid)	93	NPA	NA	NPA	May 2, 2022

Due date of payment	Payment date	Payment covers	Age of oldest dues in days	SMA/ NPA categorisation	SMA since Date/ SMA class date	NPA categorisation	NPA Date
July 1, 2022	July 1, 2022	Paid entire dues of March 1, 2022 & April 1, 2022 at EOD July 1, 2022	62	NPA	NA	NPA	May 2, 2022
Aug 1, 2022	Aug 1, 2022	Paid entire dues of May 1, 2022 & June 1, 2022 at EOD Aug 1, 2022	32	NPA	NA	NPA	May 2, 2022
Sept 1, 2022	Sept 1, 2022	Paid entire dues of July 1, 2022 & Aug 1, 2022 at EOD Sept 1, 2022	1	NPA	NA	NPA	May 2, 2022
Oct 1, 2022	Oct 1, 2022	Paid entire dues of Sept 1, 2022 & Oct 1, 2022	0	Standard Account with no overdue	NA	NA	Standard asset from Oct 1, 2022

Note: The content as stated above is illustrative in nature and as such, the Income Recognition and Asset Classification guidelines of Reserve Bank of India (RBI) issued from time to time, shall prevail.

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