

NPA Classification Norms

As per RBI's notification on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications ('RBI Circular') dated November 12, 2021 norms of NPA has been revised.

Table 1:

SMA Subcategories	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 up to 60 days
*SMA-2	More than 60 days and up to 180 days

Note: The period of SMA-2 shall be adjusted as per glide path outlined in paragraph 14.2 of Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 which is as follows:

The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under –

Table 2:

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Example:

If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 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, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on September 28, 2021.

If the interest or principal remains overdue for a period 180/150/120/90 days (based on the timeline mention in the table 2 above) and above the loan account is classified as a Non-Performing Asset (NPA). Once an asset is classified as NPA, it will move back to 'Standard' category if the DPD (days past due) count comes to '0' DPD.

As per RBI's guidelines, the lending institutions will flag borrower accounts as overdue at the day- end processes for the due date, irrespective of the time of running such processes. The

classification of borrower accounts as SMA or NPA shall also be done as part of the day-end process for the relevant date. In other words, the SMA or NPA classification date shall be the calendar date for which the day end process is run.

What is "Days Past Due (DPD)"

- It indicates whether you have been consistent in your repayments and if you have missed any instalments, you have missed and by how many days.
- The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify the loan account as NPA.
- In case the due date and billing date are different, the former would be considered for the purpose of calculating the DPD (days past due).

Receipt of Payment Instrument

In the situation wherein the payments instrument has been collected from the borrower but the same is pending for clearance or has not been deposited in the bank, only the actual collection of repayment as sufficient discharge of payment obligation by the borrower.

Upgradation of NPA accounts

For upgrading accounts classified as NPAs to 'standard' asset category upon payment of only interest overdue, partial overdue, etc. or upon the DPD (days past due) status coming to zero days.

The loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower. Partial payment, such as payment of only interest or only part of the installment, shall not result in the upgradation of the loan account.

Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

Frequently Asked Question on NPA (Non-Performing Asset) Under Asset Classification For NBFC

- 1) What is Loss Asset under asset classification for NBFC?
 - i. An asset which has been identified as loss asset by the NBFC or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and
 - ii. An asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower

- 2) What does NPA (Non-Performing Asset) mean?

Non-Performing Asset shall mean:

 - i. An asset, in respect of which, interest has remained overdue for a period of 180 days or more;
 - ii. A term loan inclusive of unpaid interest, when the installment is overdue for a period of 180 days or more or on which interest amount remained overdue for a period of 180 days or more;
 - iii. a demand or call loan, which remained overdue for a period of 180 days or months or more from the date of demand or call or on which interest amount remained overdue for a period of 180 days or more;
 - iv. A bill which remains overdue for a period of 180 days or more;
 - v. The interest in respect of a debt or the income on receivables under the head 'other current assets' in short-term loans/advances, which facility remained overdue for a period of 180 days or more;
 - vi. Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of 180 days.

- 3) What is group asset liability stamped under asset classified as NPA?

As per the regulatory guideline on Asset Classification - All the account (s) shall be considered as non-standard in respect of loans, advances and other credit facilities, 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.

Thus, all loans and advances availed by a person from Heritage Finlease through any facilities /account number(s), shall be considered as link loan accounts and sub-standard or non-performing asset, if found irregular in repayment in any of the account(s) under asset classification rules.

Example 1: Applicant has availed four loan advances under loan against property and amongst all four loans one of the loan accounts has stamped as NPA due to irregularity in repayment and rest three accounts are regular, then as per asset classification rule, all the four accounts shall be considered as NPA or non-performing asset.

Example 2: Applicant has availed four loans advances under different product lines, one loan under loan against property, other loan under Personal / Business and two other loans under commercial vehicle loan and amongst all four loan accounts one of the loan accounts was stamped as NPA due to irregularity in the repayment in such an event the other loan accounts shall be considered as NPA or non-performing asset for the NBFC as per asset classification rules.

4) How NPA stamping can be removed from any account?

To lift NPA stamping, the borrower has to make the entire payment of the principal and interest due on the account so that the NPA stamping can be removed from the account and the asset can be reclassified as normal asset.

In case of multiple exposures towards one must pay the outstanding of principal and interest in all the NPA accounts to lift the NPA stamping from the accounts.

5) How many installments is mandatory to pay for removal of NPA stamping?

The loan account holder has to pay the total outstanding including principal and interest of all the non-paid installments.

Example: There are three non-paid installments towards the repayment of the loan account, then in this case the loan account holder has to pay all three installments (principal and interest) to make the account regular and remove NPA stamping.

6) What is the effect of an NPA account on the credit rating?

Credit report will reflect the outstanding amount, which may throw negative credit score, eventually creating hindrance for the availing further credit facility from Banks and Financial institutes

7) Can NBFC initiate legal adjudication process on NPA accounts?

Yes, an NBFC can initiate legal adjudication proceedings on all NPA accounts.
