

Consumer education literature for concepts of special mention accounts (SMA) and non-performing assets (NPA) classification

Background

Reserve Bank of India (RBI) periodically issues guidelines to lending institutions on income recognition and asset classification. ICICI Bank (the Bank) offers various types of loans and asset related services to its customers, as per internal policies of the Bank and in compliance with the RBI guidelines.

It is important for customers to repay their loan dues on time to maintain a healthy credit score.

A. Irregular accounts

The loans/credit facilities granted by the Bank have a pre-fixed repayment schedule as mentioned in the loan agreements, loan statements, communications or other related documents.

The loan account is considered as '**irregular**' by the Bank, if the principal amount of loan, interest thereon, equated monthly installment (EMI) or minimum amount due on credit card is not paid on the due date.

For instance, if due date for a loan account is March 31, 2022 and full dues are not received on the same date, the date of irregularity (overdue) shall be March 31, 2022.

B. Special mention accounts (SMA) reporting

The irregular accounts are classified as SMA as follows:

	Loans other than revolving facilities	Loans in the nature of revolving facilities like cash credit/overdraft
SMA sub-categories	Principal or interest payment or any other amount wholly or partly overdue	Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Upto 30 days	Not applicable
SMA-1	More than 30 days and upto 60 days	
SMA-2	More than 60 days and upto 90 days	

Example: If the due date for a loan account is March 31, 2022 and the entire dues are not paid by the borrower, the account would be reported as:

SMA-0: During March 31, 2022 to April 29, 2022

SMA-1: During April 30, 2022 to May 29, 2022

SMA-2: During May 30, 2022 to June 28, 2022

The Bank reports to RBI the asset classification including SMA status at month-end to Central Repository of Information on Large Credits (CRILC) for all borrowers with aggregate exposure of ₹ 50.0 million or above on a monthly basis. The Bank also submits a weekly report of instances of default by borrowers (with aggregate exposure of ₹ 50.0 million and above) at the end of business hours on every Friday, or the preceding working day, if Friday happens to be a holiday.

Further, the overdue position for the loan accounts is also reported to credit bureaus.

C. Classification of non-performing asset (NPA)

1) Based on ageing of irregularity/overdues

As per RBI guidelines (issued on October 1, 2021), a non-performing asset (NPA) is a loan or an advance where:

- interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

An account is treated as 'out of order' if:

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

2) Restructuring

Restructuring is an act in which lending institutions grant a concession to the borrower under financial difficulty for economic or legal reasons. Restructuring may involve modification of terms of the advances/securities, which would generally include, among others, alteration of payment period/payable amount/the amount of instalments/rate of interest, roll over of credit facilities, sanction of additional credit facility/release of additional funds for an account in default to aid curing of default/enhancement of existing credit limits, compromise settlements where time for payment of settlement amount exceeds three months.

In case of restructuring, a loan account classified as 'standard' is immediately downgraded to NPA.

However, accounts restructured under specific scenarios like project under implementation, natural calamity, Resolution Framework for Covid-19 related stress are considered as 'standard' and not downgraded to NPA as per the RBI guidelines.

3) Other reasons for NPA classification

- Non-commencement of commercial operations within the scheduled date and the grace period permitted by RBI.
- Detection of fraud in the loan account.
- Accounts identified as NPA as per host-country norms followed by overseas branches of the Bank.
- Non-review/renewal of working capital credit limits within 180 days from the due date of previous sanction.

If a loan account of a borrower is classified as NPA, all other accounts of the same borrower/co-borrower are also classified as NPA, irrespective of overdue status in other accounts.

Based on the ageing of the loan as NPA, the accounts are further classified as:

Class	Description
Sub-standard	An account that is non-performing for a period not exceeding 12 months
Doubtful	An account that has remained in the sub-standard category for more than 12 months
Loss	An account which 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

D. Upgrade from NPA

The loan accounts which are classified as NPAs due to overdue/irregular criteria are upgraded to 'standard', if the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Bank.

The loan accounts classified as NPAs after restructuring or other reasons are upgraded based on the subsequent performance of these accounts.

E. Example for SMA/NPA status

1. All dues paid

Date	Charged (₹)	Recovery (₹)	DPD*	Status	Remarks
Mar 31, 2022	1,000	1,000	0	Regular	No overdues

*DPD: days-past-due

2. No dues paid

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	-	31	SMA-1	Overdue position
May 30, 2022	-	-	61	SMA-2	Overdue position
May 31, 2022	1,150	-	62	SMA-2	Overdue position
Jun 29, 2022	-	-	91	NPA ¹	Asset classification

1. Agriculture loans would be reported as NPA after 365 DPD, till then the accounts would be reported as SMA-2.

3. Partial dues paid (during SMA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	800	31	SMA-1	Overdue for Mar
May 25, 2022	-	500	26	SMA-0	Overdue for April
May 31, 2022	1,150	-	32	SMA-1	Overdue for April
Jun 28, 2022	-	1,000	29	SMA-0	Overdue for May
Jun 30, 2022	900	-	31	SMA-1	Overdue for May

Note: The SMA status may be upgraded on payment of dues by the borrower.

4. Partial dues paid (after NPA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	-	31	SMA-1	Overdue position
May 30, 2022	-	-	61	SMA-2	Overdue position
May 31, 2022	1,150	-	62	SMA-2	Overdue position
Jun 29, 2022	-	-	91	NPA	Asset classification
Jun 30, 2022	-	3,000	31	NPA	All dues not cleared

Note: The account classified as NPA is upgraded only when the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Bank.

The above examples are illustrative covering common scenarios and not exhaustive. The asset classification of the borrowers would be determined based on the prevailing RBI guidelines.

F. Clarifications

The borrowers may contact their relationship manager, branches or customer care for further clarifications about the overdue/irregularity details and related implications.