



Customer Education Literature Document - FAQ on Income Recognition, Asset Classification and Provisioning (IRACP) for Advances

1. What is the meaning of 'Dues'?

'Dues' mean, 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.

2. What is an 'Overdue'?

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank. The borrower accounts shall be flagged as overdue by the banks as part of their day-end processes for the due date, irrespective of the time of running such processes.

3. Special Mention Account (SMA)

The Bank shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA).

Loans other than revolving facilities		In case of revolving facilities like Cash credit/Overdraft	
SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between	SMA Sub-categories	Basis for classification- Outstanding balance remains continuously in excess of Sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Upto 30 days	-	-
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days.

The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

SMA classification is applicable to all loans (except agricultural advances governed by crop season based asset classification norms) including retail loans irrespective of size.

4. What is a Non-Performing Asset?

A Non-Performing Asset (NPA) is a loan or an advance is one which ceases to generate income for the bank.

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' as defined below, 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,
- d. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
 - e. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
 - f. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
 - g. 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.
 - h. A credit card account will be treated as non-performing, if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the due date mentioned in the statement.

5. What is an 'Out of Order' status in a Cash Credit/ Overdraft account?

A Cash Credit/ Overdraft Account shall be treated as 'out of order' if:

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

'Previous 90 days period' shall be inclusive of the day for which the day-end process is being run.

6. What are the various other scenarios where a loan account/ advance is classified as NPA?

In addition to what is mentioned in point no. 4 above, an account may also be classified as NPA in terms of certain specific provisions of the RBI Master Circular in case of Accounts with temporary deficiency, accounts where there is erosion in the value of security/frauds committed by borrowers & Prudential Norms Applicable to Restructuring.

- **Renewal pending:**

Regular and adhoc credit limits need to be reviewed/regularised not later than three months from the due date/date of ad hoc sanction. An account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

- **Non-Submission of Stock & Book Debt Statement**

A working capital borrowal account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements



periodically to facilitate lenders to determine Drawing Power calculated under the account. The outstanding in the account based on the Drawing Power calculated from stock & Book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

- The IRACP guidelines for Government Guaranteed loans & Project under implementation will be governed by the RBI master circular Ref. No. RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/2021-22 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP), pertaining to Advances dated 1 October 2021 as amended from time to time by the RBI.

7. When does a Credit card account classified as NPA?

A credit card account will be treated as non-performing, if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the due date mentioned in the statement.

8. Other important information:

- a. Bank undertakes the process of classification of accounts as SMA/NPA on daily and continuous basis during the day-end process.
- b. NPA classification is borrower wise and not account wise. Hence, if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower will also be classified as NPA.
- c. Credits 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. Hence, it is always advised to maintain sufficient funds a day in advance in your bank account through which the loan is being serviced.
- d. SMA/NPA reporting at borrower level is as per regulatory guidelines and thus, overdue in any one account of the borrower will result in reporting of the borrower as SMA or NPA, as the case may be.
- e. As per the extant regulatory guidelines, the Bank has to report the account as SMA/NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies (CICs), etc. from time to time, which impacts the credit history of the borrower.
- f. The borrower at the time of availing the loan facility may ensure that the Installment/Interest is serviced on due date through auto mode like e-NACH if the account is with other bank or standing instructions to the bank if the account is with same bank where loan is availed.

9. Upgradation of Accounts classified as NPA:

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. Also, any other pending irregularities like review/renewal of account and submission of stock statements, need to be rectified for upgradation. 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.

10. What is the impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines, Bank has 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. Further, recovery action including legal action would be initiated by Bank.
