

Customer Education Literature

As per the Reserve Bank of India (RBI) guidelines on *Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications* (RBI circulars dated November 12, 2021 and February 15, 2022), all lending institutions must follow a uniform approach to identify overdue loan accounts and classify them as Special Mention Accounts (SMA) or Non-Performing Assets (NPA).

Due Date / Repayment Date

This is the date on which the instalment amount (principal and/or interest) is payable as per the loan agreement or sanction terms.

When a Loan Becomes Overdue

A loan account becomes **overdue** if the borrower does not pay the full instalment amount (principal and/or interest) by the due date.

Finnable Credit identifies such overdue accounts as part of its **day-end process** for the same calendar date, irrespective of the time the process is run.

Classification as Special Mention Account (SMA)

Once an account becomes overdue, it is classified into different stages of delay based on the number of days the payment remains unpaid, as per RBI's definitions.

Category	Basis for classification – Principal or interest payment overdue
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days
NPA (Non-Performing Asset)	More than 90 days

Example of Classification

If the due date of a loan is **January 5, 2025**, and full dues are not received before company runs the day-end process for that date:

- The account becomes **overdue** as on January 5, 2025.
- If it remains unpaid, it will be classified as **SMA-1** after the day-end process on **February 4, 2025** (i.e., after 30 days).
- If unpaid further, it becomes **SMA-2** after the day-end process on **March 6, 2025**.
- If still overdue, it will be classified as **NPA** after the day-end process on **April 5, 2025** (after 90 days overdue).

Note: The examples above are illustrative and not exhaustive. The IRACP norms and clarifications issued by the RBI shall prevail and are subject to amendments from time to time.

Upgradation of Accounts classified as Non-Performing Asset (NPA):

An account classified as NPA can be upgraded to a **Standard** asset only when **all overdue amounts of principal and interest are fully paid** and there are **no arrears** as of the day-end process date.

If a borrower has more than one loan account, all arrears across all accounts must be cleared before any loan can be upgraded.

Important Notes

- Classification is done at the **borrower level**; if one account is overdue, all linked accounts may be reported in the same category.
- Account classification and changes (SMA/NPA) are reported to Credit Information Companies (CICs) as per regulatory requirements.
- The account status is determined only after the **day-end process** on each calendar date.

For detailed guidelines on asset classification and provisioning, please refer to the RBI's Master Circular - Prudential Norms on IRACP pertaining to Advances dated April 1, 2022. The above asset / SMA classification norms are subject to changes as per regulatory instructions issued from time to time.