

WHAT IS A LOAN?

When a bank/financial institution lends a sum of money in the form of a loan or debt to an enterprise or an individual at a specified interest rate and with a specific repayment schedule, it is referred to as a loan.

WHAT IS LOAN SERVICING?

Loan servicing means paying the interest and principal amounts on the loan borrowed, to the Bank and as per the specified interest and principal amounts and as per the defined timelines for the same.

WHAT IS LOAN OVERDUE?

For all loans availed by Borrower, the interest and principal dues have to be repaid fully as per their due dates. If not repaid, then these loans are classified as overdue.

IMPACTS OF OVERDUES ON BORROWING CAPACITY: : Any overdues from a Borrower will not only negatively impact his credit profile with and borrowing costs from the Bank, but as detailed below, will have other negative impacts also.

WHAT IS SPECIAL MENTION ACCOUNTS (SMA) WITH RESPECT TO LOAN ACCOUNTS IN BANKING?

In order to identify and monitor loans that have become overdue and show incipient stress, RBI has advised banks to classify such overdue loans into SMAs (Special Mention Accounts). Special Mention Accounts are those loan accounts that show symptoms of early stress.

The classification of Special Mention Accounts (SMA) was **introduced by the RBI in 2014**, to identify those accounts that have incipient stress. There are three **types of Special Mention Accounts – SMA 0, SMA1, and SMA 2** based on the no. of days overdue and as detailed below

SMA Sub-categories	<u>Basis for classification</u>
	Principal or interest payment or any other amount wholly or partially overdue for
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

WHAT IS A NON PERFORMING ASSET (NPA)?

A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed and becomes an NPA when the interest and/ or instalment of principal remains overdue for a period of more than 90 days. This NPA classification is monitored by Systems on a daily basis.

Example:

Date	Charged (INR)	Recovery (INR)	Days past due Status	SMA/NPA Status	Remarks
01-Jan-22	5000	0	1	SMA-0	Overdue
31-Jan-22	5200	0	31	SMA-1	Overdue
02-Mar-22	5400	0	61	SMA-2	Overdue
01-Apr-22	5600	0	91	NPA	Asset Classification
09-Apr-22	0	20000	31	NPA	Past Dues not cleared fully, Rs.600/- pending

For example, assume an Individual with a INR 10 Lacs loan with interest-only payments of INR 50,000 per month fails to make a payment for three consecutive months. The lender will categorize the loan account as non performing per regulatory requirements. Furthermore, a loan will also be categorized as non-performing if an Individual makes all interest payments but cannot repay the principal at maturity.

UPGRADATION OF NPA LOAN ACCOUNTS

Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are repaid fully by the borrower.

CREDIT BUREAU REPORTING

On a monthly basis, Banks report the repayment status of Borrowers to all the Credit Bureaus and this includes status of overdues, if any in the account and NPA classification. These reports are checked by other Borrowers and account overdues, if any, will negatively impact the Borrower's credit score and profile.

ANY FURTHER CLARIFICATIONS

The borrowers may contact the Branch Manager, Manager-Operations or respective relationship manager for further clarifications about the understandings on the matter of overdues/SM/NPA/ or any other irregularity details and related queries.
