

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

Reserve Bank of India (RBI) vide its circular no. RBI/2021-2022/125 DOR.STR.REC.68/ 21.04.048/2021-22 dated 12 November 2021 issued guidelines on 'Prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP), pertaining to Advances Clarifications' and IBA letter C&III/IRAC/14.12/2021-22 on 'Clarifications/guidance provided by RBI on Prudential norms on IRACP' dated 30 December 2021 have clarified and/or harmonized certain aspects relating to SMA/NPA classification dates, dates of overdue, etc. with a view to bring about uniformity and common understanding regarding the implementation of the guidelines on IRACP in a harmonized manner.

The RBI master circular Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (RBI/2022-23/15, DOR.STR.REC.4/21.04.048/2022-23) dated 1 April 2022 consolidates all instructions on the Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued upto 31 March 2022.

The examples quoted are illustrative and not exhaustive in nature and relate to general scenarios. The IRACP norms and clarifications issued by the RBI will prevail for implementation and may be amended from time to time by the RBI.

1. Concepts/Clarifications/Illustrative examples on Due Dates and specification of SMA/NPA classification dates:

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.

Overdue mean: the principal/interest/any charges levied on the loan account which are payable, but have not been paid within the period stipulated as per the terms of sanction of the credit facility. In other words, any amount due to the Bank under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the Bank and its customer.

2. Relevance of the Principle of 'First In First Out' (FIFO) in appropriation of payments into the borrowal account:

The Principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the number of days of overdue for determining the SMA/NPA status. The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first.

The FIFO method thus requires that what is due first must be paid by the borrower first. For example, if in any loan account as on 1.2.2021 there are no overdues and an amount of X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 1.2.2021 in the loan account will be used to pay off the dues outstanding on 1.2.2021.

Assuming that nothing is paid/or there is partial payment (Y) of dues during the month of February, the overdue as on 1.3.2021 will be (X-Y).

Additionally, an amount of Z becomes due as on 1.3.2021. Now any payment/partial payment into the account on or after 1.3.2021 will be first utilised to pay off the partial due of 1.2.2021 (X - Y). If there is more recovery than the X - Y then, after recovering dues of 1.2.2021, the remaining amount will be treated as recovery towards due of 1.3.2021.

3. Age of oldest Dues:

The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid. In the aforesaid illustration, if the Dues relating to 1 February 2021 remain unpaid till 1.3.2021, the age of the oldest dues is reckoned as 29 days on 2.3.2021.

4. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA) Lending institutions will recognise the incipient stress in loan accounts, immediately on Default, by classifying such assets as Special Mention Accounts (SMA). The basis of classification of SMA/NPA Category shall be as follows:

Loans in the nature of Term Loans/other credit facilities		Loans in the nature of cash credit/overdraft/other credit facilities	
SMA Sub-categories	Basis for classification — Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories In case of revolving credit facilities like cash credit/ overdraft	Basis for classification — (a) Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Up to 30 days		
SMA-1	More than 30 days and up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

Classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/ NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

5. Non-performing Asset:

Non-Performing Asset (NPA) is a loan or an advance where:

- i. interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' as indicated below in respect of an Overdraft/Cash Credit (OD/CC) as under:
 - a. the outstanding balance in the OD/CC account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
 - b. the outstanding balance in the OD/CC account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the OD/CC 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.

(Note: The 'previous 90 days period' for determination of 'out of order' status of OD/CC account shall be inclusive of the day for which the day-end process is being run by the Bank.)
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
- vi. 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.
- vii. 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.
- viii. In addition, 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.
- ix. 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
- x. 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,
- xi. where the loans/limits have been sanctioned against the security of Stock & Book debts, and, in such cases, if the Stock & Book debts position is not submitted to the Bank to determine the Drawing Power, the outstanding in the account based on the Drawing Power calculated from Stock & Book Debts Statement older than three months would be deemed as 'irregular', and, if such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

Notes:

- 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.

6. 'Out of Order' Status:

An account shall be treated as 'out of order' if:

- i. the outstanding balance in the OD/CC account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii. the outstanding balance in the OD/CC account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the OD/CC 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.

Kindly refer the below illustration, for better understanding:

Period	Date	Interest Debits (Dr)	Credits (Cr)	Out of order (Cr < Dr)	A/c classified as NPA
90 day period From 31 March 22 to 28 June 22	31-Mar-22	10,000			
	20-Apr-22		10,000		
	30-Apr-22	8,000			
	05-May-22		12,000		
	31-May-22	13,000			
	07-Jun-22		11,000		
Total Dr/Cr summation as on end of day process on 28 June 22		31,000	33,000	No	No
90 day period From 20 April 22 to 18 July 22	30-Apr-22	11,000			
	10-May-22		5,000		
	31-May-22	13,000			
	15-Jun-22		10,000		
	30-Jun-22	11,000			
	15-Jul-22		10,000		
Total Dr/Cr summation as on end of day process on 18 July 22		35,000	25,000	Yes	Yes
90 day period From 05 May 22 to 2 August 22	31-May-22	10,000			
	30-Jun-22	11,000			
	31-Jul-22	14,000			
Total Dr/Cr summation as on end of day process on 2 August 22		35,000	0	Yes	Yes

7. Illustrative movement of an account to SMA category to NPA category based on delay/nonpayment of dues and subsequent upgradation to Standard category at day end process:

Due Date of payment	Payment Date	Payment Covers	Age of Oldest Dues in Days	SMA/NPA Categorisation	SMA since Date/SMA Class Date	NPA Categorisation	NPA Date
01.01.2022	01.01.2022	Entire dues up to	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of	2	SMA-0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA-0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA-1	01.02.2022/ 03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.03.2022 not fully paid at EOD	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022, 01.03.2022 and amount due on 01.04.2022 at EOD 01.04.2022	60	SMA-1	01.02.2022/ 03.03.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA-2	01.02.2022/ 02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 01.05.2022	90	SMA-2	01.02.2022/ 02.04.2022	NA	NA

		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully Paid dues of 01.02.2022 at EOD	93	NPA	NA	NPA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NPA	02.05.2022
01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	NA	NPA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NPA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard Account with No Overdues	NA	NA	STD from 01.10.2022

8. Upgradation of loan 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. 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.

9. Further information/clarifications:

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

It is to be noted that the content of consumer education as stated above is illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time.