
Citibank N.A, India – Customer Education on Special Mention Accounts (SMA) / Non-Performing Assets (NPA) classification – Wholesale Banking

Background

RBI vide its circular RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications states that banks shall place customer education literature on their websites explaining concepts of overdue, SMA and NPA classification. In the following document, the Bank has, through examples where appropriate, provided details on such concepts. These are broadly based on RBI circular RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/2021-22 dated October 1, 2021 on Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.

Definition of Overdue

‘Overdue’ means 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 and the client is considered to be in ‘Default’.

Relevance of the Principle of 'First In First Out' (FIFO) in appropriation of payments into the borrower’s 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 01.02.2021 there are no overdues and an amount of Rs X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 01.02.2021 in the loan account will be used to payoff the dues outstanding on 01.02.2021. Assuming that nothing is paid or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.03.2021 will be Rs X-Y. Additionally, an amount of Rs Z becomes due as on 01.03.2021, Now any payment/partial payment into the account on or after 01.03.2021 will be first utilized to payoff the partial due of 01.02.2021 (Rs X – Y). If there is more recovery than Rs (X Y), then, after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards due of 01.03.2021 (Rs Z).

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 1st February 2021 remain unpaid till 01.03.2021, the age of the oldest dues is reckoned as 29 days on 02.03.2021.

Classification as Special Mention Accounts (SMA)

Banks are required to recognize incipient stress in loan accounts, immediately on default, by classifying such assets as SMA as per the following categories:

Loans other than revolving facilities	Loans in the nature 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	SMA Sub-categories	Basis for classification – 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		
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

Classification as Non Performing Asset (NPA)

Once the overdue crosses 90 days, the loan accounts are classified as NPA.

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),
- 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.

Out of Order status:

Cash credit / Overdraft (CC / OD) account is classified as NPA if it is 'out of order'. A CC/OD 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.

Based on the period for which an account remains an NPA, such accounts are classified as per following categories:

Asset Classification	Description
Sub- standard	With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Well defined credit weaknesses that jeopardise the liquidation of the debt. Distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

Doubtful		With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. In addition to the above, the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.
Loss	-	Loss has been identified by the bank or internal or external auditors or the RBI inspection, but the amount is not written off by the Bank. Such an asset 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

Illustrative Example

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 is as follows:

Due Date of Payment	Payment date	Payment covers	Age of oldest dues in days	SMA / NPA Categorization ¹	SMA since date / SMA Class date ¹	NPA Categorization	NPA Date
01.01.2022	01.01.2022	Entire dues upto 01.01.2022	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	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. Dues 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 1.03.2022	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022 ,01.03.2022 and 03.03.2022 amount due on 01.4.2022 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

¹Classification status tracking will depend on the type of facility being extended, for eg. SMA 0 classification is not applicable for revolving facilities, and will be tracked for SMA 1 onwards.

01.05.2022		No payment of dues of 01.02.2022 till 01.05.22 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 01.06.2022	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

The aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios and that the IRACP norms and classifications provided by RBI on the subjects referred above will prevail.

Upgradation to Standard Classification:

Loan classified as NPA may be upgraded as 'Standard' asset only if entire arrears of interest and principal are paid by the borrower.