

SOME IMPORTANT DEFINITIONS FOR CUSTOMERS

Learn About Terms Such as SMA, NPA, & More - With Illustration

Example for SMA and NPA in accordance with RBI

The Reserve Bank of India (RBI) has recently (November 12, 2021), clarified the method of calculation of Special Mention Account and Non-Performing Asset (NPA) account, in case of default by any customer.

Few important definitions and concepts:

Day-end process: At the end of every calendar day, SMFG Grihashakti shall run a process to determine whether an account will be treated as overdue or not. If by the time the day-end process is run, the dues from the customer are not received into the designated bank account of SMFG Grihashakti, the amount would be considered as not received and therefore will be treated as overdue.

Special Mention Account (SMA): RBI guidelines require a lender like SMFG Grihashakti to immediately recognize incipient stress in borrower account by classifying them as SMA. RBI prescribes three levels for SMA recognition, viz., SMA-0, SMA-1 and SMA-2. For definition of SMA and grading mechanism, you may refer RBI circular no. DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019 on 'Prudential Framework for Resolution of Stressed Assets'.

Illustration:

Assumed due date for an account: 4th calendar day of every month. (say, 4th July 2021)

- If the EMI/entire dues of a particular account are not received into the bank account of SMFG Grihashakti before the day-end process is run on 4th July 2021, i.e. the due date, the account shall be treated as overdue after day-end process. Accordingly, this account shall be classified as SMA-0.
- If this account remains continuously overdue even after the completion of day-end process on 30th day from the initial due date, after its classification as SMA-0, the account shall be classified as SMA-1, immediately after running of day-end process, if the full dues are not received before day-end process is run on the 30th day.
- Similarly, if the account continues to remain overdue for 60 days, it shall get classified as SMA-2 upon running day-end process on the 60th day from the initial due date.
- If the account remains continuously overdue for 90 days, it shall get classified as NPA upon running day-end process on the 90th day from the initial due date, i.e. on the 91st day, the account shall be classified as NPA.
- Once an account has been classified as NPAs, it may be upgraded as 'standard' asset only if the entire arrears of interest and principal are paid and the customer becomes current.

The above illustration has been further explained in the table below:

Day-end process on	DPD	Scenario	Classification
04.07.2021	1	If full dues are not received before the day-end process	SMA 0
03.08.2021	31	If full dues are not received before the day-end process of 30th day	SMA 1
02.09.2021	61	If full dues are not received before the day-end process of 60th day	SMA 2
02.10.2021	91	If full dues are not received before the day-end process of 90th day	NPA