

Consumer Education Literature on IRAC Norms/ NPA's

What is a Non-Performing Asset?

A 'non-performing asset' (NPA) is defined as credit in respect of which interest and/ or instalment of principal has remained 'past due' for a period of 90 days or more.

A Non-performing asset (NPA) is a loan or an advance where:

- Interest and charges/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order'*, in respect of an Overdraft/Cash Credit (OD/CC) for 90 days.
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

*Out of Order:

Cash credit/Overdraft (CC/OD) is classified as NPA if it is 'Out of Order'. An account should be treated as 'out of order' if

- The outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days (or)
- The outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or the outstanding balance is less than sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Special Mention Account (SMA) and Classification:

The classification of Special Mention Accounts (SMA) is introduced by the RBI, to identify those accounts that have the potential to become an NPA/Stressed Asset.

Classification of SMA is as below:

Term Loans		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	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

Charging of Interest at monthly rests

Banks shall charge interest at monthly rests in the context of adoption of 90 days norm for recognition of loan impairment w.e.f. from the year ended March 31, 2004 and consequential need for close monitoring of borrowers' accounts.

Treatment of NPAs - Borrower-wise and not Facility-wise

(i) In respect of a borrower having more than one facility with a bank, all the facilities granted by the bank will be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

(ii) However, in respect of consortium advances or financing under multiple banking arrangements, the bank will classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances. the bank shall follow the principle at (i) above for NPA classification of a borrower.

Up-gradation of loan accounts classified as NPAs

Loan accounts classified as NPAs may be upgraded as Standard assets only if entire arrears of interest and principal are paid by the borrower. With regard to up gradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operation (DCCO), etc., the instructions as specified for such cases shall be applicable.