

**CUSTOMER EDUCATION LITERATURE ON THE CLASSIFICATION OF ASSETS
ON ACCOUNT OF DEFAULT**

Following, Para 14.4.6 of RBI Master Direction has reference numbers **RBI/DoR/2023-24/106 DoR.FIN.REC. No.45/03.10.119/2023-24 dated 19-10-2023**, on Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, the repayment and the classification of the loan account in the event of default in payment of overdue, some of the important terms and conditions in this regard are explained as follows:

1. **POS (Principal Outstanding):** The outstanding principal balance of a loan/ credit facility is simply the total amount of principal outstanding in the particular loan which doesn't include the accrued interest, default interest, other charges etc.
2. **Overdue:** Any amount due to the lender under any credit facility is 'overdue' if it is not paid on the due date agreed by the lender with the borrower. Suppose there is any overdue in an account. In that case, the default/ non-repayment is reported to credit bureau companies like CIBIL, etc., and the customer's CIBIL report will reflect defaults and their classification status.
3. **DPD (Days past due):** It indicates whether you have been consistent in your repayments and, if you have missed any, how many instalments you have missed and by how many days. Concerning a particular loan, the number of days till day for which any principal/ interest/ EMI or any of its instalments for that loan are overdue and not paid as per the day-end process.
4. **SMA (Special Mention Account):** The Borrower Loan accounts shall be downgraded to the SMA classification defined below upon the Borrowers' failure to pay any EMI by the due date, outstanding Dues, or any other amount wholly or partly overdue.

SMA categories	Sub-	Basis for classification – Principal or interest payment or any another amount wholly or partly overdue
SMA-0		Up to 30 days
SMA-1		More than 30 days and up to 60 days
SMA-2		More than 60 days and up to 90 days

5. NPA (Non-Performing Asset)

A Loan account is classified as NPA upon failure of the Borrower to pay any EMI for a period of **more than 90 days**. Once the borrower is classified as NPA, the loan accounts shall remain classified as NPA until the entire arrears of interest and principal are paid in full by the Borrower.

The reporting to Credit Information Companies (Credit Bureaus) and Regulatory bodies would be as per this norm.

Illustration: If the due date of a loan account is March 31, 2024, and full dues are received after the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2024. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running the day-end process on April 30, 2024, i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2024.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running the day-end process on May 30, 2024, and if it continues to remain overdue further, it shall get classified as NPA upon running the day-end process as per extant asset classification norms.