

CONSUMER EDUCATION

Important Definitions:

- 1. Standard Asset:** Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;
- 2. Sub-Standard Asset:** Sub -Standard Asset shall mean:
 - a. an asset which has been classified as non-performing asset for a period not exceeding 18 months;
 - b. an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms.
- 3. Doubtful Asset:** Doubtful Asset shall mean:
 - a. a term loan, or
 - b. a lease asset, or
 - c. a hire purchase asset, or
 - d. any other asset,

which remains a sub-standard asset for a period exceeding 18 months.
- 4. Loss Asset:** Loss Asset shall mean:
 - a. an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and
 - b. an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.
- 5. Non-Performing Asset*:** Non-Performing Asset (“NPA”) shall mean:
 - a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
 - b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
 - c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
 - d) a bill which remains overdue for a period of six months or more;
 - e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans / advances, which facility remained overdue for a period of six months or more;
 - f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
 - g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;
 - h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower / beneficiary when any of the above credit facilities becomes non-performing asset.

Provided that in the case of lease and hire purchase transactions, an applicable NBFC (“Non-

Banking Financial Company”) shall classify each such account on the basis of its record of recovery.

** As per the Scale Based Regulations Circular issued by the Reserve Bank of India (“RBI”) vide no. RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 dated 22nd October 2021, RBI has amended the NPA Classification as below:*

- 6. NPA Classification** - The extant NPA classification norm stands changed to the overdue period of more than 90 days for all categories of NBFCs. A glide path is provided to NBFCs in Base Layer to adhere to the 90 days NPA norm as under –

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

- 7. Special Mention Accounts:** Before a loan account turns into an NPA, NBFCs shall be required to identify incipient stress in the account by creating a sub-asset category viz. 'Special Mention Accounts' (SMA) with the three sub-categories as given in the table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress as illustrated below.
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-180 days

Note: The period of SMA-2 shall be adjusted as per glide path outlined in paragraph 6 above.

8. SMA-0 Signs of Stress

Illustrative list of signs of stress for categorizing an account as SMA-0:

- Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
- Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by NBFCs or evidence of diversion of funds for unapproved purpose.
- Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
- Devolvement of Deferred Payment Guarantee (DPG) instalments or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
- Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
- The borrower reporting stress in the business and financials.
- Promoter(s) pledging/selling their shares in the borrower company due to financial stress.

9. Illustrations on Date of Overdue and SMA/NPA Classification

(i) **Example: Interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan :**

If due date of a loan account is March 31, 2026, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2026. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2026, 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, 2026.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2026, and if continues to remain overdue further, it shall get classified as NPA upon running day-end process as per extant asset classification norms. This is further elaborated in the below mentioned table:

Date	DPD	Classification
31-Mar-26 (Due Date)	1	SMA-0
30-Apr-26	31	SMA-1
30-May-26	61	SMA-2
29-Jun-26	91	NPA

Note: The period of NPA shall be adjusted as per glide path outlined in Paragraph 6 above.

(ii) **If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as nonperforming and may be classified as 'standard' asset.**

Example Description - Upgradation of NPA Account: loan accounts classified as NPAs may be upgraded as if entire arrears of principle and interest are paid by the borrower:

Date	Due Amount (INR)	DPD	Classification
31-Mar-26 (Due Date)	10,000	1	SMA-0
30-Apr-26	10,000	31	SMA-1
30-May-26		61	
31-May-26	10,000		SMA-2
29-Jun-26		91	NPA
30-Jun-26	10,000		
01-Jul-26			Upgradation*

Note: The period of NPA shall be adjusted as per glide path outlined in Paragraph 6 above

*Upgradation of Account to standard category can be done after total pending due of Rs. 40000 is received from borrower by the Lender.

(iii) **Asset Classification to be borrower-wise and not facility-wise:** It is difficult to envisage a situation when only one facility to a borrower/one investment in any of the securities issued by the borrower becomes a problem credit/investment and not others. Therefore, all the facilities granted by a Lender to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

Example: If any Facility of customer is classified as NPA upon running day-end process as on date, all the facility of the customer need to be classified NPA upon same day. It is further explained as below mention table:

Customer ID	Facility Name	Date	NPA Reason
ABC123	Term Loan 1	29 June 2026	NPA Classified as per above Example
ABC123	Term Loan 2	29 June 2026	NPA Classified Due to Customer A Term Loan 1 is classified NPA
ABC123	Cash Credit/Overdraft	29 June 2026	

Note: The period of NPA shall be adjusted as per glide path outlined in Paragraph 6 above

- (iv) **If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as nonperforming and may be classified as ‘standard’ accounts.**

Example Description - Upgradation of NPA Account: loan accounts classified as NPAs may be upgraded if arrears of interest and principal are repaid in all the facilities of the borrower:

Customer ID	Facility Name	Date	NPA Reason
ABC123	Term Loan 1	29 June 2026	NPA Classified as per above Example
ABC123	Term Loan 2	29 June 2026	NPA Classified Due to Customer A Term Loan 1 is classified NPA
ABC123	Cash Credit/Overdraft	29 June 2026	
ABC123	Term Loan 1	15-Jul-2026	
ABC123	Term Loan 2	15-Jul-2026	Upgrade*
ABC123	Cash Credit/Overdraft	15-Jul-2026	

*Upgradation of Borrower's accounts to standard can be done if arrears of interest and principal are repaid in all the facilities of the borrower.

☐ **We acknowledge that we have reviewed the above customer education chapter and confirm our understanding of the information contained in this chapter.**

For _____

Name: _____

Designation: _____

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