

Customer Awareness: Classification of Loan Accounts into SMA & NPA as per RBI Guidelines:

At **The Visakhapatnam Cooperative Bank Ltd.**, we are committed to financial transparency and empowering our customers with essential banking knowledge. In line with the latest **Reserve Bank of India (RBI)** guidelines, we classify loan accounts based on their repayment behaviour to identify financial stress early and take necessary steps for resolution.

This section explains how we classify **Term Loans**, **Overdrafts (OD)**, and **Cash Credit (CC)** accounts into **Special Mention Account (SMA)** and **Non-Performing Asset (NPA)** categories, along with frequently asked questions (FAQs) for your better understanding.

What is a Special Mention Account (SMA)?

A **Special Mention Account (SMA)** is an account that shows early signs of financial stress before becoming a Non-Performing Asset (NPA). SMA classification is done based on **the number of days payments are overdue**, and applies to both **Term Loans** and **Working Capital facilities** like OD/CC.

◆ SMA Classification for Term Loans:

SMA Category	Overdue Days	Description
SMA-0	1 to 30 days overdue	EMI or interest payment is overdue for less than 31 days.
SMA-1	31 to 60 days overdue	Overdue for 31 to 60 days.
SMA-2	61 to 90 days overdue	Overdue for 61 to 90 days – nearing NPA status.

◆ SMA Classification for Overdraft (OD) / Cash Credit (CC) Accounts:

For OD/CC accounts, SMA classification is based on **outstanding balance exceeding sanctioned limits or drawing power (DP)**.

SMA Category	Criteria
SMA-0	Outstanding balance remains continuously in excess of sanctioned limit/DP for up to 30 days.
SMA-1	Outstanding balance remains continuously in excess for 31 to 60 days.
SMA-2	Outstanding balance remains continuously in excess for 61 to 90 days.

 **Note:** "Continuously in excess" means the account has **not come within limits/DP** even once during the specified period.

What is a Non-Performing Asset (NPA)?

An account is classified as an **NPA** when the borrower fails to repay principal and/or interest for a continuous period of **more than 90 days**.

▼ NPA Criteria:

Loan Type	NPA Condition
Term Loans	Interest or instalment remains overdue for more than 90 days.
OD/CC Accounts	Account remains out of order for more than 90 days. (Explained below)

What is "Out of Order" in OD/CC?

An OD/CC account is classified as "out of order" if **any of the following conditions** are met:

1. **Outstanding continuously exceeds the sanctioned limit or DP** for more than 90 days.
2. There are **no credits** (other than interest debits) for more than 90 days or such credits are not sufficient to cover interest debited.
3. If Account remains with DP Expired for more than 90 Days.

If any of the above apply, the account is treated as **NPA – Out of Order**.

Asset Classification After NPA Status:

Once an account is classified as **NPA**, it is further categorized into the following stages:

▼ 1. Sub-Standard Assets

- An asset which has remained NPA for **up to 12 months**
- These accounts show initial signs of credit weakness
- Bank have to provision **10%** on Loan outstanding amount

▼ 2. Doubtful Assets

Assets that remain in **Sub-Standard** category for **more than 12 months** are classified as **Doubtful**.

They are further classified into:

Doubtful Category	Time Period Since NPA	Provisioning Requirement
D1 (Doubtful up to 1 year)	>12 months and ≤24 months	Secured portion: 20% Unsecured portion: 100%

D2 (Doubtful for >1 yr ≤3 yrs)	>24 months and ≤48 months	Secured portion: 30%Unsecured portion: 100%
D3 (Doubtful for >3 yrs)	More than 48 months	Secured portion: 100%Unsecured portion: 100%

▼ 3. Loss Assets

- Asset where **loss has been identified** by the bank or auditors/RBI (Asset where there is erosion of security value Identified)
- Or where asset is considered **non-recoverable**
- **Should be written off** or fully provided for at **100%**

Illustration of Term Loan Classification

- **EMI Due Date:** 31st March 2025
- **If not paid**, status evolves as follows:

Date	Classification
31 st March – 29 th April	SMA-0
30 th April – 29 th May	SMA-1
30 th May – 28 th June	SMA-2
From 29 th June onwards	NPA

Important RBI Guidelines to Remember

- Classification is done based on **day-end status**, not intra-day.
- Even **one day of delay** is considered **default** for SMA tracking.
- Accounts are treated **borrower-wise** – if one loan is NPA, all loans to that borrower are treated as NPA.
- **Upgradation** from NPA to standard can happen **only when all arrears are cleared** (interest + principal).

? Frequently Asked Questions (FAQs)

1. What is considered overdue in banking terms?

Any unpaid amount (principal or interest) not paid by the **scheduled due date** is treated as overdue from the **next day**.

2. If I pay my next EMI but miss the previous one, is my loan account regular?

No. The overdue EMI must also be cleared for the account to be regularized.

3. How does overdraft account classification work?

In OD/CC, if your outstanding amount exceeds the sanctioned limit or drawing power **continuously** for more than 90 days.

4. Can a one-day delay make my account SMA?

Yes. Even a single day of delay in repayment places your account under SMA-0 category.

5. How do I bring my OD/CC account back in order?

You must bring the outstanding balance **within the limit**, ensure **sufficient credits**, and clear any **unpaid interest**.

6. Does being SMA or NPA affect my CIBIL score?

Yes. All SMA-2 and NPA accounts are reported to credit bureaus, which may affect your **creditworthiness** and future borrowing ability.

7. What happens when an account becomes Doubtful?

When the NPA continues beyond 12 months, it becomes doubtful and bank must create higher provisions.

8. How are D1, D2, and D3 different?

They refer to **duration since the account became NPA**:

- **D1**: >1 year and ≤2 years
- **D2**: >2 years and ≤4 years
- **D3**: >4 years

Provisioning increases with the stage.

9. Can I regularize my NPA account?

Yes, by repaying **all overdue amounts** (including interest), the account may be upgraded to standard.

10. What is a Loss Asset?

An account where recovery is impossible. Bank is required to provide 100% and may write it off.

11. How does being NPA affect me?

- Reported to credit bureaus (CIBIL)
 - Impacts your credit score and future loan eligibility
 - May lead to legal or recovery action
-

12. How can I avoid my account becoming NPA?

- Make timely repayments
 - Keep OD/CC usage within limits
 - Contact the bank early if you're facing financial difficulty
-

Final Words from The Visakhapatnam Cooperative Bank Ltd.

We encourage all our valued customers to be informed and proactive in their loan repayment responsibilities. Timely repayment not only maintains your credit history but also helps us serve you better in the future.

Need Help?

We urge all our customers to stay vigilant about their loan repayment schedules and account usage. If you have any questions or need support:

-  Visit your nearest branch
-  Call us at: 1800-570-1916
-  Website: <https://vcbl.in>