

Consumer Education Literature

Pursuant to “Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24)” dated October 19, 2023 (as amended), it is required that NBFCs should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process.

Due date/repayment date

It is the date on which the principal / interest / any charges levied on the loan account are payable as mentioned in sanction terms/loan agreement as per the Repayment schedule.

Overdue (default) accounts

An account shall be in default when principal including arrears of interest and any other amount due is not paid in full as seen on the respective due date mentioned in sanction terms/loan agreement, such account shall be specified as overdue loan account.

The Company shall flag the Loan account as overdue as part of the day-end processes for the due date, irrespective of the time of running such processes. This means that if reporting is done two days later for such an account, and by that time, payment has been received, the account shall still be reported as overdue on the due date.

Day-End Process: This is a critical process run at the end of each calendar day. It is at this point that accounts are flagged as overdue, and their classification as SMA or NPA is officially updated. The classification date is the calendar date for which the day-end process is run.

At the end of each calendar day, all transactions that occurred during the business day are finalized and posted. This includes deposits, withdrawals, fund transfers, payments, loan disbursements, and any other financial movements. Transactions that occur throughout the day are often "pending" until the day-end process clears them and posts them to the relevant accounts. This processing converts "available balances" (which fluctuate throughout the day based on pending transactions) into "ledger balances" (the official, static balance at the end of the day, reflecting all processed transactions). The official status of an account is considered for loan classifications (like SMA and NPA).

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

An overdue loan account shall be classified as SMA (Special Mention Account) or NPA (Non-Performing Asset) as per RBI regulations.

➤ Classification as Special Mention Account (SMA)

The Company shall recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). The basis for classification of SMA categories shall be as follows:

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

Classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run.

➤ **Classification as Non-Performing Asset (NPA)**

The loan account shall be classified as Non-Performing Asset (NPA) when Principal or interest payment or any other amount remains overdue for a period of more than 90 days.

Upgradation of Accounts classified as Non-Performing Asset (NPA):

The loan account classified as NPA can be upgraded as “**Standard**” only if the entire amount of interest, principal and any other charges due are paid in full and there is NIL amount upon running day end process of that calendar date.

For detailed guidelines on asset classification and provisioning, please refer to the above asset / SMA classification norms are subject to changes as per regulatory instructions issued from time to time.

Scenario:

The example of Special Mention Account (SMA) and Non-Performing Asset (NPA) classification mentioned below is illustrative and not exhaustive in nature and relate to a general scenarios.

Let's consider a loan account with a due date of **March 31, 2025**, for an installment payment.

Timeline and Classification:

March 31, 2025 (Due Date): The installment payment is due. If the full dues are not received before the day-end process runs, the account is flagged as **Overdue**. The date of overdue is March 31, 2025.

April 1 - April 30, 2025 (Days 1-30 Overdue): The account remains overdue. The account is classified as SMA-0 when it is overdue for 1-30 days. On April 30, 2025, it completes 30 days of being overdue.

May 1 - May 30, 2025 (Days 31-60 Overdue): SMA-1 classification starts when the overdue period is more than 30 days, i.e., from the 31st day. The period of 60 days of continuous overdue status gets completed on May 30, 2025.

May 31 - June 29, 2025 (Days 61-90 Overdue): From May 31st, the account gets tagged as SMA-2. Upon completion of 90 days of continuous overdue status (i.e., more than 60 days and up to 90 days overdue), the account remains tagged SMA-2 on June 29th, 2025.

June 30, 2025 (Day 91 Overdue): If the account continues to remain overdue for more than 90 days, the loan account is classified as **Non-Performing Asset (NPA)** with classification date as June 30th, 2025.

NPA Upgradation Scenario:

Let's assume the account was classified as NPA on June 30th, 2025.

- **July 15, 2025:** The borrower makes a partial payment, covering only a portion of the overdue interest.
- **Day-End Process (July 15, 2025):** The account **remains classified as NPA** because the entire arrears (principal and interest) have not been paid in full.
- **August 20, 2025:** The borrower pays all outstanding arrears of interest and principal, bringing the account to a "nil arrears" status.
- **Day-End Process (August 20, 2025):** Since all arrears are cleared, the account is upgraded from NPA to a **Standard Asset**. The upgradation date is August 20, 2025.