



PRAYAAN CAPITAL

CUSTOMER EDUCATION LITERATURE

Classification of Loan Account as

“Special Mention Account” (SMA) &

“Non-Performing Asset” (NPA)

Pursuant to RBI Master Circular on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances’

Dear Customers,

This is a Customer Education Literature pursuant to the Reserve Bank of India's (RBI) circular No. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications' dated Nov. 12, 2021 ("IRACP Norms") read with the RBI's Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 updated from time to time.

With a view to increasing awareness among our Borrowers / Customers and to sensitize them on the importance of due dates and other related aspects, **Prayaan Capital Private Limited ("the Lender")** is placing this '**Customer Education Literature**' at our Branches and website explaining with examples, the concepts of date of overdue, SMA and NPA Classification and upgradation, with specific reference to day-end process.

What are "Dues"?

An amount which shall include principal and / or interest and / or any charges levied by the Lender on the account (fully / partially) which are payable within the stipulated period by the Borrower as per the agreed terms between the Borrower and the Lender.

What is "Overdue"?

Any amount (Principal or interest payment or any other amount wholly or partly) due to the Lender under any credit facility is "Overdue" if it is not paid by the Borrower on or before the Due date fixed by Lender.

What is an "Overdue Account"?

An account shall be classified as "Overdue" if any amount due to the Lender is not paid on the due date fixed by the Lender and agreed by the Borrower as per the Loan Agreement. The amount may refer to principal or interest or any other amount due or all of them.

What is "Days Past Due" (DPD)?

It is the number of days the Borrower has missed or delayed the payment that is due in his / her account. The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify an account as NPA.

What is a Special Mention Account (SMA)?

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the Borrower defaulting in timely servicing of his/her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. An account/ facility would be classified as a Special Mention Account (SMA) category if the amount due and payable to the Lender is not paid by Borrower on due date. Basis ageing of overdues, the Lender reports the Borrowers under following categories of SMA.

Loans other than revolving facilities	
SMA Sub-Categories	Basis for classification (Principal or interest payment or any other amount whole or partly overdue)
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days
NPA	Above 90 days

Example 1:

If due date of an amount (Principal or interest payment or any other amount whole or partly overdue) in a loan account is 31-Mar-2020 and full dues are not paid by the Borrower to the Lender before the Lender runs the day-end process for this date, the date of overdue shall be 31-Mar-2020. If the said amount or any part of it continues to remain overdue, then the account shall get tagged as SMA-1 upon running day-end process on 30-Apr-2020 i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 30-Apr-2020.

Similarly, if the said account continues to remain overdue (fully / partially), it shall get tagged as SMA-2 upon running day-end process on 30-May-2020 and if continues to remain overdue further (fully / partially), it shall get classified as Non-Performing Asset upon running day-end process on 29-Jun-2020.

What is a Non-Performing Asset (NPA)?

If the principal or interest or both remains overdue for a period of 90 days and above, the said loan account shall be classified as **Non-Performing Asset (NPA)**. Once an asset is classified as NPA, it will move back to 'Standard' category only if the DPD (days past due) count comes to '0' DPD.

Few instances for understanding

Instance 1: Where all dues are paid by a Borrower

Due Date	Due Amount	Amount Credited	Overdue	DPD	Status	Remarks
30-Mar-2020	xxx	xxx	0.00	0	Standard	No Overdue

Instance 2: Where the Borrower has not paid his / her dues

Due Date	Due Amount	Amount Credited	Total Overdue	DPD	Status	Remarks
30-Mar-2020	xxx	0.00	xxx + Int. + charges	1	SMA-0	Overdue
29-Apr-2020	xxx	0.00	xxx + Int. + charges	30	SMA-1	Overdue
29-May-2020	xxx	0.00	xxx + Int. + charges	60	SMA-2	Overdue
28-Jun-2020	xxx	0.00	xxx + Int. + charges	90	NPA	Overdue

As per the IRACP Norms of the RBI, the Lender will flag the Borrower's Account as 'Overdue' at the day-end processes for the due date, irrespective of the time of running such processes. The classification of the Borrower's account as SMA / NPA shall also be done as part of the day-end process for the relevant date. In other words, the SMA / NPA classification date shall be the calendar date for which the day end process in run.

Impact on the Credit Score of the Borrower:

As the classification of the accounts as SMA / NPA are being reported by the Lender regularly to the Credit Information Bureaus such as CIBIL, CRIFHIGHMARK, EQUIFAX & EXPERIAN the same will adversely affect the Credit Scores of the Borrower, which will eventually cause hindrance to the Borrower while availing further credit facility from any Bank or Financial Institution in the future. Hence the Borrowers / Customers are requested to pay their EMI / dues regularly without any failures.

What happens when an account gets tagged as NPA?

A Customer whose account is flagged as NPA has several detrimental / adverse impacts on his / her credit profile. Some of them are as below:

- Regular reminders / follow ups through phone calls, SMS, email, notices shall be sent by the Lender for payment;
- Lender can recall the entire loan amount;

- Employees of the Lender may visit for recovery of dues;
- Legal Actions
- Downgrade of the Borrowers Credit Score on Credit Bureaus which shall hinder the possibility to borrow loans in future;

How can an account classified as 'NPA' be moved back to 'Standard' Category?

An account categorized as NPA shall be upgraded or moved back to 'Standard' Category only if the entire arrears of interest and principal are paid by the Borrower. Any partial payment of the dues shall not result in upgradation of the account. Once an account is classified as an NPA, it shall remain as such until the entire dues are paid by the Borrower.

Example: If a loan is classified as NPA on 4 July 2022 with an overdue of Rs.50,000/-, the account shall be upgraded to standard only upon receipt of the entire outstanding arrears as on the date of receipt, which would include, but not limited to the current overdue of Rs.50,000/-.

Whom to Contact for any queries or further details?

For any queries or assistance, please contact the nearest Branch Office. You can also contact our Customer care at (M) +91 63805 89898 or write to Customercare@prayaancapital.com.

Disclaimer: The examples / Instances quoted herein above are illustrative and not exhaustive in nature and relate to general scenarios. The IRACP Norms and Clarifications issued by the Respected RBI from time to time shall prevail for implementation. For detailed guidelines on Asset Classification and provisioning please refer the RBI's Master Circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances'
