

## RBI IRACP Norms- Impact for NBFCs across Asset Classes

In its current circular issued by RBI dated November 12, 2021 in reference to Master circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances (IRACP) norms dated October 1, 2021, with a view to ensure uniformity in implementation across all lending institutions, RBI has clarified certain aspects of the existing guidelines which would be applicable across all lending institutions including NBFCs.

Select highlights of clarifications issued by RBI are as below:

- **Specification of Due date/repayment date:** The extant instructions on IRACP norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the Lender. Hence, the exact due dates for repayment of loan, frequency of repayment, break up between principal and interest, examples of SMA/NPA classification dates, etc. needs to be clearly specified in the loan agreements and borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanctioned terms/loan agreement till full repayment of the loan.
- **Day-end SMA/NPA classification process mandatory:** Borrower account should be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, for classification of borrower accounts as SMA or NPA, classification date shall be the calendar date for which the day end process is run.

<b>Loans other than revolving facilities</b>		<b>Loans in the nature of revolving facilities like cash credit/overdraft</b>	
<b>SMA Subcategories</b>	<b>Basis for classification – Principal or interest payment or any other amount wholly or partly overdue</b>	<b>SMA Subcategories</b>	<b>Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:</b>
SMA-0	Upto 30 days	-	-
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

Example: If due date of a loan account is March 31, 2021, 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, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 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, 2021.

*Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.*

- ***Entire arrears need to be cleared before upgrading NPAs:*** *It is clarified that loan accounts classified as NPAs may be upgraded as “standard” asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.*
- ***NPA classification in case of Interest payments:*** *In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days. These instructions shall be effective from March 31, 2022. Accordingly, in respect of any borrower account which becomes overdue on or after March 31, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.*
- ***Clarification regarding definition of “Out of order”:*** *Cash Credit/Overdraft (CC/OD) account is classified as NPA if it is “Out of Order”. It is hereby clarified that an account shall be treated as “Out of Order” if:*
  - I.*** *The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or*
  - II.*** *The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.*