

Important information and clarifications regarding the Classification of Loan Account / Credit Facility

Dear Customer / Borrower,

With reference Reserve Bank of India (RBI) circular on ‘Prudential norms on Income Recognition, Asset classification and Provisioning pertaining to Advances – Clarifications’ on November 12, 2021 and subsequent clarifications issued vide circular dated February 15, 2022, we, Arthmate Financing India Private Limited (“AFIPL”) hereby provide some important information and clarifications with respect to your loan Account / Credit facility with us.

FOR NON-CO-LENDING LOAN PRODUCTS / CREDIT FACILITIES

Classification as Special Mention Account (SMA)

Every NBFC / Lender requires to recognize incipient stress in loan accounts, immediately on default by classifying such assets as special mention accounts (SMA) as per the following categories:

Classification	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA – 0	1 – 30 days
SMA – 1	31 days – 60 days
SMA – 2	61 days – 150 days

Classification as Non-Performing Asset (NPA)

The Lender shall classify and report the loan account / credit facility and any other facility granted by the Lender to the Borrower as a Non-Performing Asset (NPA) when interest and/ or instalment of principal remains overdue for a period of 180 days or more for this facility of or any other facility granted by the Lender to the Borrower.

Example:

If due date of a Loan Facility is May 31, 2023, and full dues are not received before the NBFC/Lender runs the day-end process for this date, the date of overdue shall be May 31, 2023. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on June 30, 2023 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be June 30, 2023.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on July 30, 2023.

And if continues to remain overdue further, it shall get classified as NPA upon running day-end process on October 28, 2023.

FOR CO-LENDING LOAN PRODUCTS / CREDIT FACILITIES

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

Every NBFC / Lender requires to recognize incipient stress in loan accounts, immediately on default by classifying such assets as special mention accounts (SMA) as per the following categories:

Classification	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA – 0	1 – 30 days
SMA – 1	31 days – 60 days
SMA – 2	61 days – 90 days

Classification as Non-Performing Asset (NPA)

The Lender shall classify and report the loan account / credit facility and any other facility granted by the Lender to the Borrower as a Non-Performing Asset (NPA) when interest and/ or instalment of principal remains overdue for a period of 90 days or more for this facility of or any other facility granted by the Lender to the Borrower.

Example:

If due date of a Loan Facility is May 31, 2023, and full dues are not received before the NBFC/Lender runs the day-end process for this date, the date of overdue shall be May 31, 2023. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on June 30, 2023 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be June 30, 2023.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on July 30, 2023.

And if continues to remain overdue further, it shall get classified as NPA upon running day-end process on August 29, 2023.

UPGRADATION

Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

OTHER IMPORTANT POINTS

The borrower accounts shall be flagged as overdue as part of the day-end processes for the due date, irrespective of the time of running such processes.

Similarly, 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. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Kindly be informed that AFIPL reserves the right to make adjustments to the aforementioned criteria for classifying accounts into SMA and NPA categories without necessitating additional consent from or notification to the Borrower, especially when such modifications are prompted by changes in regulatory directives issued by the RBI.

Furthermore, the examples provided earlier serve as illustrations and are not intended to comprehensively cover all possible scenarios. It is important to note that the prevailing norms and clarifications outlined by the RBI under the IRACP framework.

**Warm regards,
Team Arthmate**