

NPA and SMA Classification – Everything You Must Know About It.

As per the guidelines issued by the Reserve Bank of India (RBI), if an individual fails to repay the loan EMIs on time or defaults on the EMI payments, then the bank classifies the loan account of the individual as SMA (Special Mention Account) and NPA (Non-Performing Asset). The laws and guidelines relating to the classification of SMA and NPA issued by the RBI and other statutory authorities shall be binding on the borrower.

If the lender classifies any loan or OD account as SMA or NPA, then the same shall be reported to the credit bureaus like Experian, CRIF, and CIBIL, and the credit score of the borrowers and guarantors will drop.

Identification of Loan Account as Special Mention Account

There are three SMA sub-categories, i.e., SMA-0, SMA-1, and SMA-2

For term loans, like home loans, personal loans, etc., if the borrower fails to repay the principal or the interest amount partially or fully for up to 30 days, then the loan account will be classified as SMA-0. If the borrower fails to repay the amount for more than 30 days and up to 60 days, then the account will be classified as SMA-1. If the borrower has a loan overdue for more than 60 days and up to 90 days, then the borrower's loan account will be classified as SMA-1.

For loans like cash credit and overdraft, if the outstanding amount remains continuously more than the sanctioned limit for more than 30 days and up to 60 days, then the lender will classify the borrower's loan account as SMA-1. If the borrower fails to repay the balance amount for more than 60 days and up to 90 days, then his/her loan account will be classified as SMA-2.

Identification of Loan Account as Non-Performing Asset

No matter the type of credit availed, be it term loan, overdraft, or cash credit, if the borrower fails to repay the interest or principal amount, either partially or fully on time for more than 90 days, then the lender will classify his/her loan account as NPA.

Let us understand the NPA and SMA classification with an example.

Let us assume Miss. Shalini Gupta has availed a home loan, and the due date for her EMI is March 31, 2022. If she fails to pay the full EMI amount on or before the due date, then she will have a loan overdue. At the end of the day, on March 31, the lender will classify her loan account as SMA-0, and it will remain in the same category till April 21, 2022.

If she fails to repay the outstanding amount and has an overdue, then her loan account will be classified as SMA-1 on April 30, 2022, i.e., after the completion of 30 days of the loan being overdue. If she continues to have an overdue, then her account will be tagged as SMA-2 on May 30, 2022, and if she does not pay back the outstanding amount by June 29, 2022, then her account will be classified as a Non-Performing Asset.

When the lender tags a borrower's loan account as NPA, it can be reclassified as standard only after the borrower repays the entire overdue amount.

Now that you know about SMA and NPA classification and their effect on credit history and score, make sure that you avoid defaulting on the loan repayment and try to pay the EMIs on time. This will not only help you avoid your loan account being classified as SMA or NPA, but you can also avoid paying the late payment fees and interest penalty.