

Consumer Education literature: FAQs on IRACP Norms

1. Introduction and purpose

This document serves as a comprehensive guide to help customers of slice small finance bank understand how loan accounts are classified according to Reserve Bank of India (RBI) guidelines. Understanding these classifications enables you to maintain a healthy credit profile and make informed decisions about your loan obligations.

RBI has established specific norms for Income Recognition, Asset Classification and Provisioning (IRACP) that all banks must follow. These guidelines ensure uniform treatment of loan accounts across the banking system and provide transparency in asset quality assessment.

2. Key definitions and terminology

2.1 Dues

Dues represent the principal amount, interest, or charges levied on your loan account that are payable within the stipulated period as per your loan agreement with slice small finance bank.

2.2 Overdues

Overdues are amounts that remain unpaid beyond the contractual due date. Any payment obligation to slice small finance bank becomes overdue if not settled on or before the specified due date.

2.3 Stressed account

An account becomes stressed when you fail to meet payment obligations such as EMI, installments, or interest on the agreed due date, indicating early signs of financial difficulty.

2.4 Day-end process

This refers to the daily operational process conducted by slice small finance bank to update account statuses, classify assets, and determine overdue positions based on payment receipts and contractual obligations.

3. Special mention accounts (SMA) classification

3.1 Overview

Special mention accounts represent the first stage of asset classification for accounts showing stress indicators. These accounts require immediate attention to prevent deterioration to non-performing status.

3.2 Classification criteria

Facility type	SMA category	Classification basis	Time period
Term loans and non-revolving facilities	SMA-0	Principal or interest payment overdue	Up to 30 days
	SMA-1	Principal or interest payment overdue	More than 30 days and up to 60 days
	SMA-2	Principal or interest payment	More than 60 days

		overdue	and up to 90 days
Revolving facilities (cash credit/overdraft)	SMA-1	Outstanding balance continuously exceeds limit	More than 30 days and up to 60 days
	SMA-2	Outstanding balance continuously exceeds limit	More than 60 days and up to 90 days

3.3 Important considerations

SMA classification occurs immediately upon default and serves as an early warning system. Accounts classified as SMA-2 that remain unresolved will automatically transition to NPA status after 90 days of continuous default.

4. Non-performing assets (NPA) classification

4.1 Definition

A non-performing asset represents a loan or advance that ceases to generate income for slice small finance bank due to prolonged payment defaults or other specified conditions.

4.2 Classification criteria by facility type

Facility type	Classification condition	Time period
Term loans and credit facilities	Interest and/or principal installment overdue	More than 90 days
Agricultural loans (short duration)	Principal or interest installment overdue	Two crop seasons
Agricultural loans (long duration)	Principal or interest installment overdue	One crop season

4.3 "Out of order" status for revolving facilities

Cash credit or overdraft accounts are classified as "out of order" under any of these conditions:

1. Outstanding balance continuously exceeds sanctioned limit or drawing power for 90 days
2. No credits received continuously for 90 days despite outstanding balance being within limits
3. Credits received are insufficient to cover interest debited during the previous 90 days period

4.4 Technical reasons for NPA classification

Reason	Time limit	Description
Renewal pending	180 days	Credit limits not reviewed or renewed within specified timeframe
Documentation deficiency	180 days	Stock and book debt statements older than permitted period

4.5 Borrower-level impact

NPA classification applies comprehensively to all accounts held by a borrower with slice small finance bank. If any single facility becomes NPA, all other facilities under the same borrower relationship are automatically classified as NPA regardless of their individual payment status.

5. Asset classification timing and processes



5.1 Daily classification routine

slice small finance bank conducts asset classification as part of daily day-end processes. Account statuses are determined based on payment positions at the close of each business day.

5.2 Payment recognition timing

Credits received before completion of the day-end process are considered overdue calculations on that specific day. Payments received after day-end processing are applied to the subsequent business day.

5.3 Classification timeline example

Date	Due date	Payment status	Days overdue	Classification	Classification date
April 1, 2024	March 31, 2024	No payment received	1	SMA-0	April 1, 2024
April 30, 2024	March 31, 2024	Payment still pending	30	SMA-1	April 30, 2024
May 30, 2024	March 31, 2024	Payment still pending	60	SMA-2	May 30, 2024
June 29, 2024	March 31, 2024	Payment still pending	90	NPA	June 29, 2024

6. Payment allocation methodology

6.1 First in, first out (FIFO) principle

slice small finance bank applies the FIFO methodology for payment appropriation, ensuring that the oldest outstanding dues receive priority in payment allocation.

6.2 FIFO application example

Date	Transaction type	Amount	Outstanding balance	Age of oldest dues	Account status
February 1, 2024	EMI due	₹10,000	₹10,000	0 days	Regular
February 28, 2024	Partial payment	₹8,000	₹2,000	27 days	SMA-0
March 1, 2024	New EMI due	₹10,000	₹12,000	28 days (February dues)	SMA-0
March 3, 2024	Payment received	₹2,000	₹10,000	1 day (February cleared)	SMA-0
March 15, 2024	Payment received	₹10,000	₹0	0 days	Regular

7. Account upgradation from NPA status

7.1 Standard upgradation criteria

NPA accounts are upgraded to standard status only upon fulfillment of all specified conditions:

1. Complete payment of all arrears of interest and principal across all credit facilities
2. Rectification of all documentation irregularities and compliance issues
3. Regularization of all facilities if multiple credit relationships exist



7.2 Special categories

Account type	Upgradation criteria
Restructured accounts	Specific regulatory guidelines as per RBI circulars
Project loans	Date of commencement of commercial operations (DCCO) compliance
Standard cases	Complete arrear clearance and documentation compliance

8. Restructuring and asset classification impact

8.1 Definition of restructuring

Restructuring involves modification of loan terms due to borrower financial difficulties and may include changes to payment schedules, interest rates, credit limits, or settlement arrangements extending beyond three months.

8.2 Classification consequence

Any restructuring undertaken due to financial difficulties results in immediate NPA classification regardless of the account's current payment status.

8.3 Exclusions from restructuring

Modifications resulting from floating interest rate changes that affect EMI amounts or loan tenure are not considered restructuring and do not impact asset classification.

9. Regulatory reporting and borrower impact

9.1 Reporting obligations

Reporting authority	Information shared	Coverage
Central repository information of large credit (CRILC)	SMA and NPA status	Exposures of ₹5 crore and above
Credit information companies (CICs)	Account classification status	All exposures
Regulatory authorities	As per specific mandates	Various categories

9.2 Consequences for borrowers

Account classification as SMA or NPA creates several impacts including negative effects on credit scores, difficulties in obtaining future credit facilities, potential changes in loan terms for future borrowing, and possible implications for employment opportunities requiring credit background verification.

10. Exemptions from NPA classification

Certain advances receive exemption from NPA classification when specific margin requirements are maintained:

Advance type	Exemption condition
Advances against term deposits	Stipulated margin maintained
Advances against National Savings Certificates (NSCs)	Certificates eligible for surrender and margin maintained
Advances against life insurance policies	Stipulated margin maintained
Advances against Kisan Vikas Patra (KVPs)	Stipulated margin maintained

Advances against gold ornaments and government securities do not qualify for these exemptions.



11. Best practices for account management

11.1 Payment discipline

Ensure all EMI and installment payments reach slice small finance bank on or before contractual due dates. This requirement applies even when due dates fall on non-working days.

11.2 Account monitoring and maintenance

Maintain adequate account balances for auto-debit arrangements at least two days before due dates. Regularly monitor account statements and establish proactive communication channels with slice small finance bank when anticipating payment difficulties.

11.3 Documentation compliance

For credit facilities secured against stock and receivables, ensure timely submission of required statements to prevent technical NPA classification due to documentation deficiencies.

Regulatory disclaimer: This document provides illustrative guidance based on current RBI norms. Actual Income Recognition, Asset Classification and Provisioning (IRACP) regulations and clarifications issued by the Reserve Bank of India prevail for implementation and may be amended periodically. Specific loan terms and conditions as documented in individual loan agreements with slice small finance bank apply to respective accounts.

Document authority: Prepared by slice small finance bank to enhance customer awareness and promote responsible borrowing practices in accordance with regulatory requirements.

