CONSUMER EDUCATION ON OVERDUE PAYMENTS, SMA & NPA CLASSIFICATION

Understanding Your Loan Repayment Obligations:

Our loans generally require **interest to be paid quarterly**. The interest accrued during each quarter becomes due **on or before the 15th of the month immediately following the end of the respective quarter**, unless otherwise specified in your loan agreement.

For example:

Interest Period	**Interest Due Date**
April – June	15 July
July – September	15 October
October – December	15 January
January – March	15 April

Under the **Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025**, loan accounts are classified based on the repayment status through an automated **day-end process**.

This note explains:

- What is an overdue amount?
- What are SMA (Special Mention Account) categories?
- When a loan becomes a Non-Performing Asset (NPA)?
- How an NPA account can be upgraded?

1. What is the "Date of Overdue"?

An amount becomes **overdue** when it is **not paid on or before the due date** specified under the loan agreement.

The **date of overdue** is the day immediately following the due date.

Example:

Interest for the quarter **April–June** is payable by **15 July**.

Due Date	Payment Status	Date of Overdue
15 July	Not Paid	16 July

Accordingly, if the interest is not received by **15 July**, the account becomes **overdue from 16 July**.

2. What is the Day-End Process?

RBI requires all NBFCs to determine the status of every loan account **at the close of each day (day-end process).**

This means:

- If the overdue amount is received **before completion of the day's processing**, the account status will reflect such payment.
- If the dues remain unpaid at the end of the day, the account continues to remain overdue and the number of overdue days increases accordingly.

Asset classification into SMA or NPA is therefore determined based on the account status **as at the end of each day**, and not merely on the due date.

3. What are Special Mention Accounts (SMA)?

SMA classification is an early warning mechanism prescribed by RBI for accounts showing signs of payment stress.

Classification	Overdue Status
Standard Asset	No overdue
SMA-0	1–30 days overdue
SMA-1	31–60 days overdue
SMA-2	61–90 days overdue

Illustration:

Interest is due on **15 July** but is not paid.

Date	Account Status
16 July	SMA-0 begins
14 August	Still SMA-0
15 August	SMA-1 begins
14 September	Still SMA-1
15 September	SMA-2 begins
After completion of more than 90 days overdue	Liable to be classified as NPA

4. When does a Loan become an NPA?

If the overdue interest or any other amount due remains unpaid for **more than 90 days**, the loan account will be classified as a **Non-Performing Asset (NPA)** in accordance with RBI guidelines.

Example:

Interest due on **15 July** remains unpaid.

Event	Date
Interest Due	15 July
Overdue starts	16 July
Account continues in SMA categories	Up to 90 days overdue
On completion of more than 90 days overdue	Classified as NPA during the day-end process

5. Consequences of NPA Classification:

Once an account is classified as an NPA, it may result in:

- Reporting to Credit Information Companies (Credit Bureaus);

- Recovery proceedings in accordance with applicable laws and the loan agreement;
- Continued accrual of contractual obligations, wherever applicable;
- Adverse impact on the borrower's credit history and future borrowing capability.

6. How can an NPA Account be Upgraded?

An account classified as NPA will be upgraded to a **Standard Asset** only after **all overdue amounts**, including interest, principal (where applicable) and any other dues payable under the loan agreement, are paid in full.

Partial payment does **not** result in upgradation.

Example:

Outstanding dues: Quarterly Interest: ₹2,50,000

Payment Made	**Account Status**
₹1,50,000	Continues as NPA
₹2,50,000	Eligible for upgradation to Standard Asset, subject to RBI guidelines

Frequently Asked Questions (FAQs):

Q1. If I pay the quarterly interest on 16 July instead of 15 July, what happens?

Your account becomes **overdue from 16 July**. However, it does **not** immediately become an NPA. It will first fall under the applicable SMA category depending on the number of days it remains overdue.

Q2. How are overdue days calculated?

Overdue days are counted from the **day immediately following the due date** until the overdue amount is fully paid.

Q3. Does paying part of the quarterly interest stop the overdue classification?

No. Unless the overdue amount due under the loan agreement is cleared in full, the account may continue to remain overdue.

Q4. What does "day-end process" mean?

Every day, the NBFC reviews the status of each loan account after the close of business. The classification as Standard, SMA or NPA is based on the status of the account at that time.

Q5. How can I avoid SMA or NPA classification?

Please ensure that the quarterly interest and all other dues are paid **on or before the due date**, i.e., **15th of the month immediately following the relevant quarter**, or such other due date specified in your loan agreement.

[Disclaimer: This consumer education material has been prepared in accordance with the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025. In case of any inconsistency, the RBI Directions, applicable laws and the terms of the loan agreement shall prevail.]