



## Overdue Concept

The concept of "overdue" in finance refers to a payment that has not been made by its scheduled due date. It can refer to principal or interest payments on loans, credit card bills, or other financial obligations. An overdue payment indicates that the borrower has missed the payment deadline, and it may lead to penalties, fees, or a change in the classification of the account, such as an SMA or NPA.

### Example:

Suppose Ramesh has taken a personal loan from a financial institution, and his monthly EMI (Equated Monthly Installment) is due on the 10th of every month. In October, Ramesh fails to pay the EMI by the 10th. As of the 11th of October, Ramesh's payment is considered overdue.

If Ramesh does not make the payment for 30 days, the bank will classify the account as SMA-0. If the payment remains overdue beyond 60 days, it could move to SMA-1 or SMA-2, depending on how late the payment is. If Ramesh doesn't pay for more than 90 days, the account becomes a Non-Performing Asset (NPA).

## SMA (Special Mention Account)

SMA (Special Mention Account) is a category used by financial institutions to identify and monitor accounts that are overdue but not yet classified as a Non-Performing Asset (NPA). SMA accounts are an early warning sign indicating potential stress in a borrower's financial condition. This classification helps Financial Institutions to proactively manage such accounts and take corrective measures before they become NPAs.

### Classification of SMA:

#### 1. SMA-0:

- Payments are overdue for 1-30 days.
- This indicates very early signs of stress.

#### 2. SMA-1:

- Payments are overdue for 31-60 days.
- This indicates that the borrower is facing some financial difficulty but still has a chance to make the payment.

#### 3. SMA-2:

- Payments are overdue for 61-90 days.
- This indicates a higher risk of the account becoming an NPA, and more serious intervention may be needed.

### Example of an SMA Customer:

Imagine a borrower named Meera, who took a business loan from a Financial Institution. She is required to pay her EMI (Equated Monthly Installment) by the 10th of each month. Due to a cash flow problem, Meera misses her payment that was due on January 10th.

- If Meera does not make the payment by February 9th (i.e., 30 days from the due date), her account would be classified as SMA-0.
- If she still hasn't paid by March 10th (i.e., overdue for more than 30 days but less than 60 days), her account will be classified as SMA-1.
- If the overdue period extends beyond 60 days and up to 90 days, her account will be classified as SMA-2.

If Meera continues to miss payments beyond 90 days, the account will then be classified as an NPA, which indicates a more severe financial stress and poses a higher risk to the Financial Institution.

## NPA (Non-Performing Asset)

NPA (Non-Performing Asset) refers to loans or advances where the borrower has not made the scheduled payments for a period of 90 days or more. In other words, an NPA is a loan that is no longer generating income for the lender, such as a Financial Institution, due to non-payment by the borrower. NPAs are classified as per their duration of non-payment and the risk associated with their recovery.

### Classification of NPAs:

#### 1. Sub-Standard Assets:

- These are assets that have remained NPA for a period of **up to 12 months**.
- There is an increased risk of default, but there is still a reasonable expectation of recovery.

#### 2. Doubtful Assets:

- These are assets that have been in the **sub-standard category for 12 months** or more.
- The likelihood of full recovery is in doubt, but some recovery is still expected.

#### 3. Loss Assets:

- These are assets that are considered unrecoverable by the Financial Institution or the auditors.
- They are classified as a loss but are not yet written off entirely.

### Upgradation of NPAs:

NPA upgradation is the process of reclassifying a Non-Performing Asset back to a "standard" asset when the borrower starts making regular payments and meets specific conditions. The upgradation process involves the following:

#### 1. Repayment of Overdue Amount:

- The borrower must repay all overdue installments, including principal and interest. There should be no overdue amounts left beyond the threshold of 90 days.

#### 2. Regular Payment Pattern:

- After repaying the overdue amount, the borrower must consistently make regular payments without any defaults for a period, typically at least 3 months.

Once these conditions are met, the financial institution can reclassify the NPA as a standard asset, which improves the Financial Institution's overall asset quality and reduces the provisioning requirement for that loan.

### Example:

Suppose Shyam takes a loan from a Financial Institution, but due to financial difficulties, he fails to make the required payments for more than 90 days. As a result, his loan is classified as an NPA.

After six months, Shyam's financial situation improves, and he repays all overdue installments and starts making regular monthly payments. Once he continues this repayment behavior consistently for three months, the Financial Institution may decide to upgrade Shyam's loan from an NPA to a standard asset.