

CONSUMER EDUCATION LITERATURE

This is a Consumer Education Literature pursuant to the Reserve Bank of India's (RBI) circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications' dated November 12, 2021 bearing reference no. RBI/2021-2022/125 DOR.STR.REC.68/ 21.04.048/ 2021-22 and DOR.STR.REC.85/ 21.04.048/2021-22 dated February 15, 2022 ("IRACP Norms"), read with the RBI's Master Direction – Reserve Bank of India (Non- Banking Financial Company – Scale Based Regulation) Directions, 2023, updated from time to time ("RBI Guidelines").

With a view to increasing awareness among our Borrowers / Consumers and to sensitize them on the importance of due dates and other related aspects, **Laxman Finance Private Limited ("LFPL")** is placing this '**Consumer Education Literature**' at our website explaining with examples, the concepts of date of overdue, **Special Mention Account (SMA)** and **Non-Performing Asset (NPA)** Classification and upgradation, with specific reference to day-end process.

What are 'Dues'?

An amount which shall include principal and / or interest and / or any charges levied by LFPL on the account (fully / partially) which are payable within the stipulated period by the Borrower as per the agreed terms between the Borrower and LFPL.

What is 'Days Past Due' (DPD)?

It is the number of days the Borrower has missed or delayed the payment that is due in his / her account. The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify an account as NPA.

Concept of Date of Overdue:

The due date for the payment of loans has been indicated in the sanction letter and loan agreement and repayment schedule and it is understood that time shall be of essence for the payments to be made by the Borrower under/ in relation to the Finance Documents. The amount may refer to principal or interest or any other amount due or all of them

Classification as SMA and NPA:

What is a SMA?

SMA is an account which is exhibiting signs of incipient stress resulting in the Borrower defaulting in timely servicing of his/her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. An account/ facility would be classified as a SMA category if the amount due and payable to the LFPL is not paid by Borrower on due date. Basis ageing of overdues, LFPL reports the Borrowers under following categories of SMA:

Loans other than revolving facilities	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

In the above context, it is further clarified that borrower accounts shall be flagged as overdue as a process at the day-end of due date. Similarly, classification of borrower accounts as SMA as well as NPA shall also be done in the similar manner. 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.

Example: If due date of a loan account is March 31, 2021, and, the dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021, i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021, and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

What is NPA?

As mentioned above, classification of borrower accounts as NPA shall be done as part of day-end process for the relevant date and NPA classification date shall be the calendar date for which the day-end process is run. NPA is a loan where interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.

It is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

Few instances for understanding:

Instance 1: Where all dues are paid by a Borrower

Due Date	Due Amount	Amount Credited	Overdue	DPD	Status	Remarks
31-Mar- 2021	xxx	xxx	0.00	0	Standard	No Overdue

Instance 2: Where the Borrower has not paid his / her dues

Due Date	Due Amount	Amount Credited	Overdue	DPD	Status	Remarks
31-Mar-2021	xxx	0.00	xxx + Int. + charges	1	SMA-0	Overdue
30-Apr-2021	xxx	0.00	xxx + Int. + charges	30	SMA-1	Overdue
30-May-2021	xxx	0.00	xxx + Int. + charges	60	SMA-2	Overdue
29-Jun-2021	xxx	0.00	xxx + Int. + charges	90	NPA	Overdue

Impact of SMA/NPA Classification on Credit score:

As the classification of the accounts as SMA / NPA are being reported by LPFL regularly to the Credit Information Bureaus such as CIBIL, CRIF HIGH MARK, EQUIFAX & EXPERIAN the same will adversely affect the Credit scores of the Borrower, which will eventually cause hindrance to the Borrower while availing further credit facility from any Bank or Financial Institution in the future. Hence the Borrowers / Customers are requested to pay their EMI / dues regularly without any failures.

What happens when an account gets tagged as NPA?

A Customer whose account is flagged as NPA has several detrimental / adverse impacts on his / her credit profile. Some of them are as below:

- Regular reminders / follow ups through phone calls, SMS, email, notices shall be sent by LFPL for payment;
- LFPL can recall the entire loan amount;
- Employees of LFPL may visit for recovery of dues;
- Legal Actions
- Downgrade of the Borrowers Credit Score on Credit Bureaus which shall hinder the possibility to borrow loans in future;

How can an account classified as ‘NPA’ be moved back to ‘Standard’ Category?

As mentioned above, an account categorized as NPA shall be upgraded or moved back to ‘Standard’ Category only if the entire arrears of interest and principal are paid by the Borrower. Any partial payment of the dues shall not result in upgradation of the account. Once an account is classified as an NPA, it shall remain as such until the entire dues are paid by the Borrower.

Example: If a loan is classified as NPA on 4 July 2022 with an overdue of Rs.50,000/-, the account shall be upgraded to standard only upon receipt of the entire outstanding arrears as on the date of receipt, which would include but not limited to the current overdue of Rs.50,000/-.

Whom to Contact for any queries or further details?

For any queries or assistance, please contact our customer care at (M) +91 9664739885 or write to customercare@laxmanfin.com

Disclaimer: The examples / instances quoted herein above are illustrative and not exhaustive in nature and relate to general scenarios. The IRACP Norms and clarifications issued by RBI from time to time shall prevail for implementation.