

CONSUMER EDUCATION LITERATURE

In accordance with the Reserve Bank of India Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications as amended from time-to-time dated November 12, 2021, Samunnati Financial Intermediation & Services Private Limited ('the Company') has initiated the Consumer Education on the concepts of date of overdue, SMA and NPA classification and upgradation as given below:

Overdue:

Any amount due to the Company under any credit facility is 'overdue' if it is not paid on the due date fixed by the Company. The borrower accounts shall be flagged as overdue by the Company as part of their day-end processes for the due date, irrespective of the time of running such processes.

Special Mention Account:

As per the RBI Circular on Prudential Framework for Resolution of Stressed Assets, the Company has to recognize incipient stress in borrower accounts, immediately on default, by classifying them as Special Mention Accounts (SMA) in the timelines as provided below:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification - Outstanding balance remains continuously in excess of sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Up to 30 days		
SMA-1	More than 30 days and up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

Non-Performing Asset

In accordance with the provisions of the RBI's Master Direction on Systemically Important Non Deposit Taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 a Non-Performing Asset (NPA) :

- (a) an asset, in respect of which, interest has remained overdue for a period of three months or more;
- (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of three months or more or on which interest amount remained overdue for a period of three months or more;
- (c) a demand or call loan, which remained overdue for a period of three months or more from the date of demand or call or on which interest amount remained overdue for a period of three months or more;
- (d) a bill which remains overdue for a period of three months or more;
- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans/ advances, which facility remained overdue for a period of three months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of three months or more;
- (g) the lease rental and hire purchase instalment, which has become overdue for a period of three months or more;

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the above credit facilities becomes non-performing asset

Further, the Company shall upgrade a loan account classified as NPA into standard asset only if entire arrears of interest and principal are paid by the borrower for all the loan facilities extended towards him.

Project Loan

'Project Loan' shall mean any term loan which has been extended for the purpose of setting up of an economic venture. Further the 'Date of Commencement of Commercial Operations' (DCCO) documentation, restructure of project loans and classification of NPA if project has not commenced operations by stipulated DCCO or DCCO is extended beyond the permissible periods or DCCO extensions shall be carried out by the Company as per stipulated regulations.

Process to be followed by the Company for classification of borrower account as SMA and NPA:

Classification of borrower accounts as SMA as well as NPA will be done as part of day-end process for the relevant date and the SMA or NPA classification date will be the calendar date for which the day end process is run. In other words, the date of SMA / NPA will reflect the asset classification status of an account at the day end of that calendar date.

The examples quoted below are illustrative and not exhaustive in nature and relate to general scenarios.

Example: If due date of a loan account is March 31, 2021, and full dues are not received before the Company runs the day-end process for this date, the date of overdue shall be March 31, 2021 and the account will be tagged as SMA-0 for a period up to 30 days. 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, i.e., upon completion of 60 days of being continuously overdue, and if the account continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021 which is the 90th day from the date of over due.

In the scenario above, the status of your loan A/c will change on the same day as the due date during the day end processing activity of the Company in case of non-receipt of payment. Further, if the due date falls on a non-working day, the borrower has to ensure that the repayment is made on or before the due date.

The above-mentioned classification of account into NPA/SMA are applicable to all loans, including retail loans, irrespective of size of exposure of the Company.

Income recognition policy for loans with moratorium on payment of interest

In cases of loans where moratorium has been granted for repayment of interest, the Company may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in paragraph 1 of the Annex-1 to the 'Prudential Framework for Resolution of Stressed Assets' dated June 7, 2019.

The extant instructions (compiled at paragraph 3.2 of the Master Circular on IRACP norms dated October 1, 2021) require that once an account is classified as NPA, the entire interest accrued and credited to income account in the past periods, must be reversed to the extent it remains

unrealised. However, it is clarified that if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) becomes NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

NPA Classification on account of restructuring

Restructuring may involve modification of terms of the advances/ securities, which would generally include, among others, alteration of payment period/ payable amount/ the amount of instalments/ rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default/ enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months. Any restructuring of facility on account of financial difficulty of borrower will result in classification of account as NPA, unless otherwise specified.

SMA/NPA classification at borrower level

SMA/NPA reporting is borrower level as per regulatory guidelines and thus, overdue in any one account of borrower will result in reporting of borrower as SMA or NPA as the case may be.

Upgradation of accounts classified as NPAs

The Company would be upgrading the loan accounts classified as NPAs as 'standard' asset only if entire arrears of interest and principal are paid. Upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc. will be governed by specific regulations.

For detailed guidelines in asset classification and provisioning, please refer to RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances dated October 1, 2021, and Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications dated November 12, 2021. The above asset / SMA classification norms are subject to changes as per regulatory instructions issued from time to time.

Impact on the borrower if account is slipped to Stress/NPA

As per the regulatory guidelines the Company has to report Stress/Default /NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time and there will be adverse effect on his credit score/creditworthiness. The Company have to persuade the borrower to repay or initiate liquidation of mortgaged assets which will result in fetching lower price on sale.