

READY RECKONER -POINTS TO KEEP IN MIND

Term Loan

Term loan account will be treated as NPA if interest and/or installment of principal remain overdue for a period of more than 90 days.

Cash Credits and Overdrafts

A cash credit or overdraft account will be treated as NPA if the account remains out of order for a period of more than 90 days. An account is treated as "out of order" if any of the following conditions is satisfied:

- a. The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
- b. Though the outstanding balance is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the period.

It should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress.

Considering the difficulties of large borrowers, stock statements relied upon by the branches for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

Regular and adhoc credit limits need to be reviewed / regularised not later than three months from the due date/date of adhoc sanction. In case of constraints such as non availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ adhoc credit limits have not been reviewed / renewed within 180 days from the due date/date of adhoc sanction will be treated as NPA.

Bills Purchased and Discounted

The bills purchased/discounted account should be treated as NPA if the bill remains overdue for a period of more than 90 days.

Other Accounts

Any other credit facility should be treated as NPA if any amount to be received in respect of that facility remains overdue for a period of more than 90 days.

Note:

Branches should classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Overdue

Amount due to the bank under any credit facility is overdue, if it is not paid on the due date fixed by the bank.

Agriculture Advances

A loan granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops, would be treated as "short duration" crops.

Agriculture Advances affected by Natural Calamities

Relaxation in assets classification norms in credit facilities granted to affected borrowers in District & Block Notified by State Government, as cyclone or other natural calamities affected:

Advances against FDR/NSCs/KVP/IVP/LIP

Advances against Term Deposits, NSCs eligible for surrender, Indira Vikas Patras, Kisan Vikas Patras and Life Insurance Policies, need not be treated as NPAs although interest thereon has not been paid for 90 days provided adequate margin is available in the accounts. However, advances against gold ornaments, Govt. securities and all other securities are not covered by this exemption.

For the purpose of calculating the margin, value of security should be taken as under:

- a) In case of advances against Term Deposit in the nature of recurring and reinvestment deposits, the principal and interest accrued thereon shall be taken into account.
- b) In case of advances against LIC policies, the latest surrender value of the policy may be taken into account.
- c) In case of advances against NSCs eligible for surrender, IVPs and KVPs the interest accrued on the value of security should be taken into account.

Consortium Advances

In respect of consortium advances, each member bank may classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and /or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

Advances To Staff

As in the case of project Finance, in respect of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as 'overdue' from the first quarter onwards. Such loans/advances should be classified as NPA only when there is default in payment of interest on due date of payment.

Regularization of Account by Year-end

If the accounts of the borrowers have been regularised before the balance sheet date by repayment of overdue amounts through genuine sources (and not by sanction of additional facilities or transfer of funds between accounts) the accounts need not be treated as NPA.

Branches should, however, ensure that the account remains in order subsequently and a solitary credit entry made in the account on or before the balance sheet date which extinguishes the overdue amount of interest or installment of principal is not reckoned as the sole criterion for treating the account as standard asset.

It is to clarify here that the asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as NPA. In other genuine cases, the branches must furnish satisfactory evidence to the Statutory Auditors / Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

Determination of NPA s: Borrower wise, not Facility wise

All the facilities granted to a borrower will have to be treated as NPA and not a particular facility or part thereof which has become NPA. If the amount in default of any borrower is outstanding in default account i.e. LC-default account/ LG-default account / DPG default account / Co-accepted bills default account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

The bills discounted under LC favouring a borrower may not be classified as a NPA, when any other facility granted to the borrower is classified as NPA. However, in case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

Net Worth of Borrower /Guarantor or Availability of Security

Availability of security or net worth of borrower/guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise, except to the extent provided in Para 1.16.4 below, as asset classification and income recognition is based on record of recovery and compliance of other non-financial indicators

Accounts where there is erosion in the value of security / frauds committed by borrowers:

Accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers need not go through the various stages of classification. In case of such serious credit impairment the asset-should be straightaway classified as doubtful / loss as appropriate:

i. Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

ii. If the realizable value of security, as assessed by the bank / approved valuer / RBI is less than 10 percent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset and provisioning made accordingly.