IRAC Norms and NPA

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Components of Prudential Norms

- Income Recognition
- Asset Classification
- Provisioning Norms
- Capital Adequacy

Income Recognition

- Income should not be calculated on accrual basis
- Only actual interest earned should be taken to P&L a/c
- If interest is unrealized then it should not be taken to P&L a/c

Concept of NPA

Assets are Classified as

- **Performing Assets**-Assets that generates income
- **Non Performing Assets**-Assets that Ceases to generate Income
- Classification on the basis of recovery and not on security of Borrower

When an Asset becomes NPA

- **In case of agriculture loan –** any installment which remains overdue for more than 365 Days after due date
- e.g.- In case of Tractor loan installment
- Installment Due date-1/10/2018
- If it remains unpaid till 365 days then after 365 days i.e. on 1/10/2019 its Loan Account will become NPA and it ceases to generate income.
- Final categorisation of NPA is done on next 31st of march i.e. on 31/03/2020

When an Asset becomes NPA

- **In case of allied to Agri loan/NFS Loan -** *A*ny installment which remains overdue for more than 90 Days after due date

- e.g.- In case of Dairy loan

- Installment due date-1/10/2018

- If it remains unpaid till 90 days then after 90 days i.e. on 30/12/2018 its Loan Account will become NPA and it ceases to generate income.

- Final categorisation of NPA is done on next 31st of march i.e. on 31/03/2019

Asset Classification

- Standard Asset

- Substandard Asset

- Doubtful Asset

- Loss Asset

Standard Asset

- Performing Asset

- Not in the category of NPA

- Do not show any risk to bank

Substandard Asset

- Those assets which remain overdue for a period not exceeding 3 years

Doubtful Asset

- An asset which remains overdue for a period > 3 year

- It is divided under 3 sub categories-

- DC1(Doubtful Category1)- An asset which remains overdue for a period > 3 year but up to 4 years

- DC2(Doubtful Category2)- An asset which remains overdue for a period > 4 year but up to 6 years

- DC3(Doubtful Category3)- An asset which remains overdue for a period > 6 years

Loss Asset

- Such assets which are considered as non recoverable

- Security mortgaged is either disputed or parished

- Identity of borrower is false

Provisioning

- Standard Asset- 0.25% of Balance Principal
- Substandard Asset- 10% of the Balance Principal
- Doubtful Asset 1- 20% of the Balance Principal
- Doubtful Asset 2- 30% of the Balance Principal
- Doubtful Asset 3- 50% of the Balance Principal
- Loss Asset- 100% of the Balance Principal

Impact of NPA on Bank

- Liquidity crunch- blockage of funds
- Profitability of the bank- Provision is made from the profit of the bank
- Affects goodwill in the eyes of the customer

How to reduce NPA level

- Proper selection of borrower
- Regular follow-up after disbursement
- Try to recover current installments due for the first time
- Intensive drive to recover NPA loans
- Sector wise collection of NPA data
- Diversification

Any Questions?

Thank You!

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