OVERVIEW OF CREDIT MANAGEMENT

CHAPTER 17 MODULE C PART 4 By Ashish Sir

SPECIAL MENTION ACCOUNTS (SMAS)

The **Special Mention Account (SMA)** category was introduced by the Reserve Bank of India (RBI) as part of a proactive **Early Warning System** in the risk management framework of banks. This category is intended to help identify and address early signs of stress in loan accounts to prevent their slippage into Non-Performing Assets (NPAs). Below are the key details:

Objective of SMAs:

1. **Early Identification of Stress**: Helps in detecting loan accounts with potential problems and identifying stress at an early stage.
2. **Timely Corrective Actions**: Provides banks with an opportunity to take preventive or corrective measures, such as rehabilitation or restructuring of loans.
3. **Alignment with International Practices**: Encourages banks to monitor and follow up on problem loans in line with global best practices.
4. **No Provisioning Requirement**: Currently, SMAs do not require provisioning, as they are not classified as NPAs.

Classification of SMAs

For Term Loan Accounts:

SMA-0: Payment of principal, interest, or any other amount overdue by **1-30 days**.

SMA-1: Payment of principal, interest, or any other amount overdue by **31-60 days**.

SMA-2: Payment of principal, interest, or any other amount overdue by **61-90 days**.

For Revolving Credit Facilities (e.g., Cash Credit/Overdraft):

- No **SMA-0** category.

SMA-1: The outstanding balance exceeds the sanctioned limit or drawing power (whichever is lower) for a continuous period of **31-60 days**.

SMA-2: The outstanding balance exceeds the sanctioned limit or drawing power (whichever is lower) for a continuous period of **61-90 days**.

Purpose:

The SMA classification acts as a preventive tool for banks to:

- Monitor **incipient stress** in accounts.
- Improve internal monitoring and follow-up of potential NPAs.

- Enable timely actions like restructuring or recovery to avoid asset quality deterioration.