20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **An NPA is a loan on which principal or interest stays overdue for more than 90 days.**
   RBI's IRAC norms use the 90-day overdue rule as the core trigger for classifying an account as non-performing.

2. **A term loan turns NPA if interest or principal instalment remains overdue beyond 90 days.**
   The 90-day clock starts from the instalment due date, not from the loan disbursement date.

3. **An OD or CC account becomes an NPA if it stays out of order continuously for more than 90 days.**
   Cash credit and overdraft accounts lack fixed instalment dates, so RBI uses the out-of-order test instead.

4. **Bills purchased and discounted become NPAs if the bill remains overdue for more than 90 days.**
   The same 90-day overdue threshold applies to purchased or discounted bills as to term loans.

5. **A CC or OD account is out of order if the balance stays continuously above the sanctioned limit or drawing power.**
   Persistent excess over the sanctioned limit is one of RBI's out-of-order tests for cash credit accounts.

6 **A CC or OD account is also out of order if no credits are received in it for 90 continuous days.**
Absence of genuine account turnover for 90 days signals the account is not being operated normally.

7 **For short-duration crops, an agricultural loan becomes an NPA if the instalment is overdue for two crop seasons.**
RBI classifies farm loans by harvest cycle rather than a fixed calendar day count.

8 **For long-duration crops, an agricultural loan becomes an NPA if the instalment is overdue for one crop season.**
Long-duration crops need only one missed season to be classified as an NPA, unlike short-duration crops.

9 **RBI's IRAC norms classify assets into four categories: Standard, Sub-Standard, Doubtful and Loss.**
This four-tier ladder forms the backbone of asset classification under RBI's Income Recognition and Asset Classification norms.

10 **A Standard asset is a performing loan with no recovery problems and regular payments.**
Standard assets carry the lowest provisioning because there is no sign of repayment stress.

11 **A Sub-Standard asset is one that has remained an NPA for 12 months or less.**
Once an account crosses the 90-day NPA threshold, it is first classified as sub-standard for up to a year.

12 **A Doubtful asset is one that has remained in the sub-standard category for more than 12 months.**
Doubtful assets carry heavier provisioning than sub-standard assets because recovery becomes less certain over time.

13 **A Loss asset is one identified as uncollectible by auditors or RBI inspectors but not yet written off.**
Loss assets sit at the bottom of the classification ladder and typically require full provisioning.

14 **Sub-standard assets typically require 15% provisioning on the secured portion and 25% on the unsecured portion.**
Unsecured exposure always attracts a heavier provisioning rate than secured exposure at every stage of ageing.

15 **The secured portion of a doubtful asset generally steps up provisioning from 25% to 40% to 100% as it ages.**
Ageing beyond one year and then beyond three years pushes secured-portion provisioning progressively higher.

16 **The unsecured portion of any doubtful asset generally attracts 100% provisioning regardless of its age.**
Unlike the secured portion, the unsecured slice of a doubtful account does not get a graded step-up.

17 **Loss assets generally require 100% provisioning or a full write-off of the outstanding amount.**

Since recovery is considered virtually impossible, banks must fully cover a loss asset with provisions.

18 **A restructured account can be upgraded to standard only after satisfactory performance, generally over at least one year.**

RBI requires a sustained track record of timely payments before a restructured loan regains standard status.

19 **Rising NPAs weaken a bank's capital adequacy because provisions directly erode profitability.**

Every provision charged against an NPA reduces the profit and loss account, shrinking capital available for fresh lending.

20 **Banks recover NPAs through SARFAESI, the Debt Recovery Tribunal, Lok Adalats and the Insolvency and Bankruptcy Code.**

Each recovery mechanism suits a different situation, from secured-asset seizure to time-bound corporate insolvency resolution.