

RBI's New SNFA Framework - Explained

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- The Reserve Bank of India (RBI) has introduced a new prudential framework for **Specified Non-Financial Assets (SNFAs)**, prescribing uniform rules for banks acquiring and disposing of immovable assets from defaulting borrowers.

Specified Non-Financial Assets (SNFAs)

- The Specified Non-Financial Asset (SNFA) is a new category introduced by the RBI under the Commercial Banks – Resolution of Stressed Assets Directions, 2025 (Third Amendment Directions, 2026).
- SNFAs refer to immovable properties acquired by banks in full or partial settlement of loans that have turned into **Non-Performing Assets (NPAs)**.
- These assets are not part of banks' normal business operations but are acquired as a recovery mechanism when borrowers fail to repay loans.
- Examples of SNFAs
 - Residential buildings

- Commercial properties
- Industrial land
- Warehouses
- Other immovable assets were transferred to banks in settlement of outstanding loans.

Need for the New Framework

- Banks occasionally acquire immovable properties while recovering bad loans. However, the absence of a comprehensive regulatory framework resulted in:
 - Inconsistent valuation practices
 - Prolonged holding of non-core assets
 - Lack of transparency in disposal
 - Divergent accounting treatment across banks
- The new framework seeks to ensure that banks focus on banking activities rather than real estate ownership, while improving recovery, governance, and financial reporting.

Key Features of the RBI's SNFA Framework

- **Eligibility for Acquisition**
 - The borrower's account has already been classified as a Non-Performing Asset (NPA).
 - The property is transferred through full or partial extinguishment of the outstanding loan.
 - Where only part of the outstanding loan is settled through transfer of property, the remaining exposure will continue to be treated as a restructured loan, attracting the applicable prudential norms.
 - The RBI has clarified that an asset will be considered an SNFA only after its legal title has been transferred to the bank.
- **Valuation Norms**
 - To prevent overvaluation and improve transparency, RBI has prescribed conservative valuation standards.
 - Every SNFA must be recorded at the **lower** of:
 - The **net book value** of the extinguished loan; or
 - The **distress sale value**, determined independently by **at least two external valuers**.
 - This approach ensures realistic asset valuation and reduces the possibility of inflated balance sheets.
- **Acquisition and Disposal Policy**
 - Every commercial bank must formulate a **Board-approved SNFA policy** covering:
 - Eligibility criteria
 - Delegation of approval powers
 - Recovery measures before acquisition
 - Maximum permissible exposure to SNFAs
 - Disposal strategy and timelines
 - The policy should ensure that acquisition of immovable assets remains an exceptional recovery measure rather than a regular business activity.
- **Time Limit for Disposal**

- The RBI has imposed a strict time limit on banks for holding such assets. Banks must:
- Make all reasonable efforts to dispose of SNFAs **at the earliest**.
- Complete disposal **within seven years** from the date of acquisition.
- The objective is to prevent banks from accumulating large portfolios of non-core real estate assets.
- **Disposal Through Public Auction**
 - The framework provides that disposal should primarily take place through public auction.
 - Banks must follow the auction principles laid down under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.
 - Public auctions are intended to ensure:
 - Transparency
 - Fair price discovery
 - Competitive bidding
 - Reduced scope for favouritism
- **Restriction on Sale to Borrowers**
 - One of the most significant provisions is the prohibition on resale of SNFAs to:
 - The original borrower
 - Related parties, as defined under the **Insolvency and Bankruptcy Code (IBC), 2016**
 - The RBI introduced this safeguard to prevent misuse of the recovery process and ensure that defaulting borrowers do not regain ownership of seized assets through indirect arrangements.
- **Accounting and Disclosure Norms**
 - The RBI has clarified that SNFAs will:
 - Not form part of Gross NPAs
 - Not form part of Net NPAs
 - Not be included in stressed assets
 - Not affect the Provisioning Coverage Ratio (PCR)
 - Instead, banks must disclose them separately in their balance sheets under:
 - “Non-banking assets acquired in satisfaction of claims.”
 - Banks are also required to submit annual information on SNFAs through the RBI’s Centralised Information Management System (CIMS), including:
 - Number of acquisitions
 - Disposals
 - Age-wise classification
 - Assets retained for own use
- **Implementation Timeline**
 - The revised framework will come into force on 1 October 2026.
 - For legacy SNFAs already held by banks as on 30 September 2026, compliance must be achieved by 30 September 2027.
 - This provides banks with a one-year transition period to align existing assets with the new framework.

Significance of the New Framework

- The framework is expected to strengthen India’s banking system by:

- Standardising the treatment of immovable assets acquired from defaulters
- Improving transparency in valuation and disposal
- Preventing misuse of repossessed properties
- Enhancing governance and financial reporting
- Encouraging quicker recovery of stressed assets
- Allowing banks to remain focused on their core lending activities rather than managing real estate
- The reforms also complement broader initiatives aimed at strengthening the resolution of stressed assets under the **SARFAESI Act**, the **Insolvency and Bankruptcy Code (IBC)**, and RBI's prudential regulations.

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