To: Head of Information Technology

UFS: Head of Credit (HOC) Rusau Ntbiua 16/01/2023

From: Credit Risk & Underwriting Manager   Oarabile PdSO 16/01/2023.

Subject:

CREDIT SCORING-UNSECURED PERSONAL LOANS

Date   16ᵗʰ January 2023

BACKGROUND

BBS Bank began operations in 1976 as a building society in terms of the Building Societies Act. In the early twentieth century, the organization adopted the strategy of transforming the business from a building society to a commercial bank. As part of the transformation journey, in April 2018 the institution demutualized into a company to enable application for a banking licence. The application was submitted to the Bank of Botswana and subsequently approved in October 2022, henceforth, enabling the introduction of a wider variety of products and services.

Following the issuance of the banking licence, BBS Bank Limited has embarked on introduction of new products, the first one being Unsecured Personal Loans.
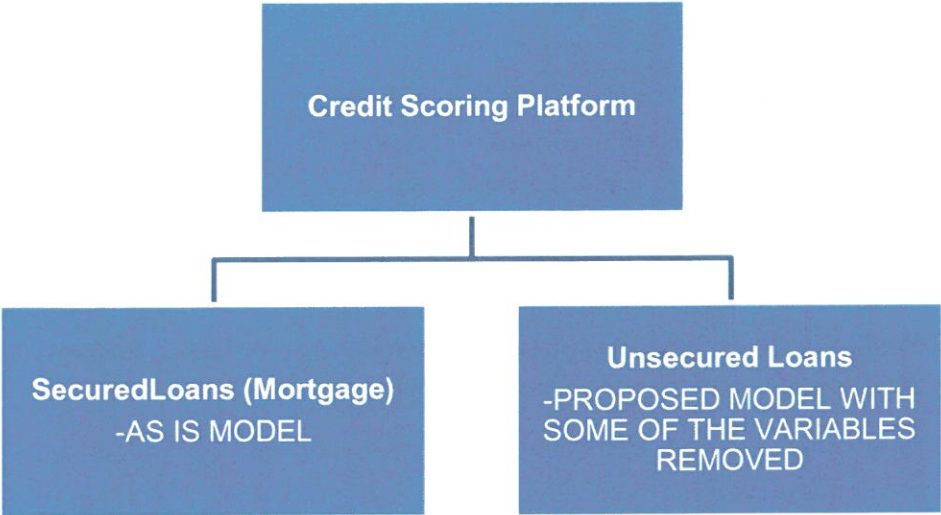
PRODUCT RATIONALE

To safeguard all the interests of BBS Bank Limited, every application will undergo credit scoring to minimize default rate. Currently BBS Bank Limited uses application scoring and therefore all applicants will be required to be scored and a credit score and Probability of Default (PD) will be generated for each individual customer. BBS Bank Limited has an existing retail credit scoring model in use for mortgage(secured) loans to retail customers and similarly, a credit scoring model suitable for unsecured loans needs to be devised for purposes of scoring those customers.

IMPLEMENTATION REQUEST

The existing credit scoring model will be used as a framework for the personal loan credit scoring model and vary some of the existing variables on the existing secured retail loans model. Below is a list of the existing variables and which ones are recommended for removal versus which variables are recommended for

continuation on the proposed unsecured loans credit scoring model. See table of variables with recommendations for continuation/removal from the proposed unsecured loans credit scoring model.

2) Inherently, this means users will have two credit scoring models, one being for the mortgages and the other one for the personal loans embedded under the overall credit scoring platform. See table 1 below

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┌─────────────────────────────────┐
│    Credit Scoring Platform      │
└─────────────────────────────────┘
              │
      ┌───────┴───────┐
      │               │
┌───────────────┐  ┌────────────────────────┐
│ SecuredLoans  │  │   Unsecured Loans      │
│  (Mortgage)   │  │ -PROPOSED MODEL WITH   │
│ -AS IS MODEL  │  │ SOME OF THE VARIABLES  │
│               │  │      REMOVED           │
└───────────────┘  └────────────────────────┘
```

LIST OF VARIABLES TO BE REMOVED AND CONTINUED ON THE PROPOSED UNSECURED CREDIT SCORING MODEL

CREDIT SCORING FIELDS	REMOVE/REMAIN
Omang/Passport	Remain
Loan Application Number	Remain
Loan Type	Remain
Loan Amount Rquested :	Remain
Property Type:	Remove
Open Market Value:	Remove
Loan Maturity Requested	Remain
Rate Type Requested:	Remain
Estimated Loan Current (Offered) Interest Rate pa	Remain
Insurance Replacement Cost	Replace with Life cover Amount
Estimated Insurance Premium **	Remain
Estimated Instalment of the requested Loan **	Remain
Estimated Instalment + Insurance Premium **	Remain
Loan To Value Policy **	Remove
Loan To Value **	Remove
Professional Revenues (Gross amounts) Borrower:	
Annual Salary Amount (Gross):	Remain
Other Income:	Remain
Tax	Remain
Total Revenues for affordability: **	Remain
HouseHold Partner Revenues:	Remove
Household Partner- Annual Salary Amount (Gross):	Remove
Household Partner- Other Income:	Remove
Household Partner- Tax :	Remove
Household Partner- Total Revenues for affordability: **	Remove
TOTAL Allowable Household Revenues: **	Remove
Total revenues for affordability **	Remain
Affordability Policy	Remain
Affordability Ratio **	Remain
Customer Type:	Remain
Borrower Name :	Remain
Nationality:	Remain
Other NAmes :	Remain
Surname :	Remain
Spouse,Partner,Co-Borrower Name :	Remove
Spouse Surname:	Remove
Borrower Present Address :	Remain
Street Name and Number :	Remain
Town:	Remain
Country:	Remain
Permanent Country of Residence :	Remain
Location of Acquired REal Estate:	Remove
Marital Status	Remain
Borrower Birthdate	Remain
Spouse BirthDate: ;	Remove
Wedding Date	Remain
Divorce BirthDate: ;	Remain
Marital Contract Type	Remain
Spouse/Partner Borrowing Relationship	Remove
Total Number of Children:**	
Children living at home 0 to 12 years of age	Remain
Children living at home 13 to 18 years of age	Remain
Children living at home 19 to 26 years of age	Remain
Other dependants Living in Household GrandParents	Remain
Other dependants Living in Household Aunts/Uncles/Cous	Remain
Other dependants Living in Household	Remain
TOTAL Dependants Living at home:**	Remain
Years At Present Address:	Remain
Monthly payment (rental/instalment):	Remain
Borrower Education:	Remain
Professional Category:	Remain
Employment Contract:	Remain
Number of Years Remaining on Contract:	Addition
Number Of Years Working at Present Employer:	Remain
Household Professional Revenues:	Remain
Main Bank:	Remain
Second Bank:	Remain
Third Bank:	Remain
Age Of Relationshp with BBS:	Remain
Savings Account:	Remain
Deposit Account:	Remain
Share Account:	Remain
ST Loans:	Remain
Mortgages:	Remain
TOTAL BBS Products: **	Remain
BBS arrears for over 30days in last 12mnths?	Remain
REnegotiated loans with arreas in past 24 months?	Remain
Why was this needed ?	Remain
Number of credit card personally held	Remain
Card held since (in years)	Remain
Number of loans presently outstanding	Remain
ITC REF NP.	Remain
ITC REPORT -(Paid Debt)	Remain
ITC REPORT: Judgement	Remain
ITC REPORT: Default Data	Remain
ITC REPORT: Trace Alerts	Reman
BlackList Flag	Remain
Fraud Alerts	Remain
Deduction from source?	Remain

LEGEND

■	Addition/Amendme
■	Remove variable
	Remain

CONCLUSION

The model configuration is to be implemented immediately.