# STANDARD OPERATING PROCEDURE (SOP)

## Loan Approval Policy & Decisioning Framework

### 1. Purpose

This SOP provides a clear and comprehensive explanation of how our organisation evaluates loan applications.

It serves as both a practical guide for staff and a reference document for audit and compliance teams.

The intent is to make the decision-making process transparent, consistent, and aligned with responsible lending principles.

By describing how we assess affordability, creditworthiness, employment stability, and documentation integrity,

this SOP ensures that lending decisions are made in a fair and well-reasoned manner.

### 2. Scope

This document applies to all personal loan applications reviewed either automatically through our decision engine

or manually by an underwriter. It covers the full lifecycle of application assessment—from initial document checks

through to the final decision. The SOP covers all individuals involved in underwriting, credit risk oversight,

operational support, and compliance.

### 3. Roles and Responsibilities

Credit & Risk Department:

Responsible for maintaining this policy, updating thresholds as needed, and ensuring alignment with our risk appetite

and regulatory obligations.

Automated Decision Engine:

Applies all rules consistently and generates preliminary assessments. It identifies applications requiring manual review

and logs all decisions for auditability.

Manual Underwriters:

Review cases that fall outside automated approval criteria. They consider exceptions, assess borderline affordability,

and apply professional judgment where rules indicate uncertainty.

Operations Teams:

Verify the authenticity and completeness of applicant-submitted documents. They escalate any discrepancies

or potential issues to underwriting.

## 4. Key Definitions

Debt-to-Income (DTI): A ratio showing how much of a customer's income is already committed to debt repayment.

Lower DTI ratios signal better repayment capacity.

Disposable Income: The money remaining each month after subtracting rent and debt obligations from monthly income.

This measure helps determine whether the applicant can comfortably meet new loan repayments.

Bureau Spread: The range between the highest and lowest of the three bureau scores.

A wide spread may suggest data inconsistency or errors.

## 5. Procedure

### 5.1 Document Verification

Document verification is the starting point for every loan assessment. Without reliable documentation,

the accuracy of the financial evaluation cannot be trusted. Applicants must provide valid pay slips,

bank statements, and government-issued identification. If any of these items cannot be verified, the application

cannot proceed and must be declined.

There is one controlled exception: if only one document is unverified, but the applicant has a strong financial profile (credit score of at least 720 and annual income of at least £50,000), the case may be routed to manual review.

This allows consideration of otherwise strong applicants who may face occasional documentation issues.

## 5.2 Affordability Assessment

Affordability is a core pillar of responsible lending. Two main indicators guide this assessment: DTI ratio

and disposable income.

DTI Ratio:

- A DTI of 35% or below indicates strong repayment capacity.

- A DTI between 35% and 45% signals elevated financial strain and requires manual review.

- A DTI above 45% suggests unaffordable repayment commitments and results in decline.

Disposable Income:

- Applicants with £600 or more remaining each month after debts and rent are considered financially resilient.

- Applicants with £300–£599 fall into a grey area and need manual review.

- Applicants with less than £300 disposable income lack the necessary financial cushion, resulting in a decline.

Affordability Exceptions:

In rare but justified situations, an applicant may proceed to review despite falling short of standard thresholds—

for example, high earners (income of at least £60,000 with DTI ≤ 50%) or applicants with low disposable income

but meaningful, verified savings.

## 5.3 Creditworthiness Assessment

Creditworthiness provides insight into how reliably an applicant has managed past borrowing.

Credit Score Thresholds:

- Scores of 700 or above reflect strong credit behaviour.

- Scores between 640 and 699 require a closer look via manual review.

- Scores below 640 indicate elevated risk and lead to decline.

Bureau Score Consistency:

Because each bureau has its own methodology, minor variation across scores is normal. However,

a spread of 120 points or more indicates inconsistency and requires manual review.

If any bureau score falls below 580, the risk is deemed too high and the application must be declined.

Credit Exceptions:

Applicants with scores between 620 and 639 may still qualify for manual review if they demonstrate long-term

employment stability (5+ years) and have no record of adverse credit events.

5.4 Employment Stability

Stable employment increases confidence that the applicant's income is predictable.

Employment Duration:

- Two years or more is considered stable.

- One to two years requires additional review.

- Less than one year typically results in decline.

Exception:

High-earning, strong-credit applicants (income ≥ £55,000 and credit score ≥ 720) with less than one year in their job

may still be considered under manual review.

5.5 Loan Amount vs Income

Loan requests must be proportionate to earnings.

- Loans up to 35% of annual income are acceptable.

- Loans between 35% and 50% require manual assessment.

- Loans exceeding 50% of annual income are unsustainable and result in decline.

6. Decision Routing Logic

There are three possible outcomes: APPROVE, MANUAL REVIEW, and DECLINE.

APPROVE:

The applicant meets all policy requirements. No rules are breached, and no exceptions are invoked.

MANUAL REVIEW:

The application shows borderline or ambiguous results, falls into an exception category,

or contains inconsistencies that require human judgment.

DECLINE:

The applicant fails a hard rule such as unverified documentation, DTI above 45%,

insufficient disposable income, very low credit score, unstable employment, or excessive loan request.

7. Rationale Requirements

Every decision must be supported by a clear, well-structured rationale.

A strong rationale explains exactly why the decision was reached, referencing the applicant's actual financial metrics

and the rules or thresholds that were met or breached. It should be specific, transparent, and logically linked

to the final outcome.

Examples:

APPROVE:

"The applicant demonstrated strong affordability, including a DTI of 27% and disposable income of £850.

Their credit score of 712 and consistent bureau scores indicate low credit risk. With stable employment history

of 4.2 years and no rule triggers, the application meets all approval criteria."

MANUAL REVIEW:

"The applicant's DTI of 41% and disposable income of £420 fall into review ranges.

Their credit score of 685 is acceptable but does not qualify for automatic approval.

Human judgment is required to determine whether repayment capacity is sufficient."

DECLINE:

"The applicant's disposable income is £110, below the required minimum of £300,

and their DTI of 48% exceeds the 45% decline threshold. No exceptions apply.

The application must therefore be declined."

## 8. Recordkeeping

To support audit, compliance monitoring, and regulatory review, all decision records—including calculations,

rule triggers, and rationale—must be retained for at least six years.

## 9. SOP Review

This SOP must be reviewed yearly or when regulatory, system, or risk appetite changes occur.

Revisions must be approved through the organisation’s formal governance process.