Retail Credit Policy – Unsecured Personal Loans

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1. Purpose

This policy defines the underwriting standards, risk thresholds, and approval framework for unsecured consumer loans originated by the bank. It applies to all applications assessed using the automated Credit Risk and Credit Quality Assurance (QA) system.

The objective of this policy is to:

- Ensure consistent and fair credit decisions

- Control portfolio risk

- Support regulatory compliance

- Provide transparent, explainable decisioning

Machine learning models are used to estimate Probability of Default (PD), but all decisions must comply with this policy.

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2. Key Definitions

Term	Definition
PD	Probability of Default, the likelihood that a borrower will default within 12 months
DTI	Debt-to-Income ratio, total monthly debt divided by monthly income
LTI	Loan-to-Income, loan amount divided by monthly income
QA	Credit Quality Assurance, independent review of higher-risk or borderline cases
Fast-Track	Loans approved automatically with minimal review

Hard Reject	Applications that must be declined regardless of PD

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3. PD Risk Bands

Borrowers are segmented into risk bands based on calibrated PD:

PD Range	Risk Band
PD < 5%	Very Low Risk
5% ≤ PD < 20%	Low to Medium Risk
20% ≤ PD < 30%	High Risk
PD ≥ 30%	Very High Risk

These risk bands determine the base decision path but do not override policy limits.

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4. Decision Hierarchy

All credit decisions must follow this order:

1. Hard policy rules

2. PD risk band

3. QA flags

4. Final action

Machine learning predictions never override hard policy breaches.

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5. Hard Reject Rules

An application must be declined if **any** of the following conditions are met:

Rule
PD ≥ 30%
DTI ≥ 50%
Loan amount > 5 × monthly income
Current delinquency (acc_now_delinq > 0)
Bankruptcy on record
Tax lien on record

These conditions represent unacceptable credit risk.

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6. Mandatory QA Review

Applications must be routed to Credit QA if **any** of the following apply:

Condition
PD between 15% and 30%
Loan term = 60 months
Income not verified
Revolving utilization ≥ 60%
Employment length < 2 years
≥ 3 credit inquiries in last 6 months

QA review ensures borderline cases receive human oversight.

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7. Fast-Track Eligibility

Loans may be approved automatically only if **all** of the following conditions are met:

Condition

PD < 5%

DTI < 30%

Employment ≥ 2 years

Income verified

Revolving utilization < 50%

No current delinquencies

If any condition fails, the loan must be reviewed or routed to QA.

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8. Approve with Caution

Loans that do not qualify for Fast-Track but do not breach Hard Reject or QA conditions may be approved with caution. These loans are monitored more closely post-origination.

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9. Overrides and Exceptions

Any override to an automated decision must:

- Be approved by a credit manager

- Include documented justification

- Be logged for audit and monitoring

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10. Governance and Review

This policy is reviewed quarterly by:

- Credit Risk

- Compliance

- Model Risk Management

All PD thresholds and QA rules must be validated using historical default data.