

Retail Lending Credit Policy & QA Guidelines

Version: 1.0
Owner: Credit Risk & Quality Assurance
Applies to: Personal Loans, Consumer Loans, Unsecured Lending

1. Purpose

This policy defines the minimum credit standards, risk thresholds, and Quality Assurance (QA) review requirements for retail loan origination. The objective is to ensure that lending decisions are consistent, risk-aware, and aligned with the bank’s credit appetite.

2. Risk Rating Framework

All loan applications are assigned a **Probability of Default (PD)** and corresponding **Risk Band** generated by the bank’s credit risk model.

Risk Band	PD Range	Description
Fast-Track Approve	PD < 5%	Very low risk, eligible for automated approval
Approve with Caution	5% ≤ PD < 20%	Moderate risk, may require pricing or documentation adjustments
QA Review	20% ≤ PD < 30%	Elevated risk, requires manual QA review
Review / Reject	PD ≥ 30%	High risk, generally not eligible for approval

3. Quality Assurance Review Triggers

Loans assigned to **QA Review** or **Review / Reject** must be reviewed by a Credit QA analyst before any approval decision.

A loan must be flagged for QA if any of the following conditions are met:

- $PD \geq 20\%$
 - Loan amount exceeds $3\times$ verified monthly income
 - Credit history length < 24 months
 - Debt-to-Income (DTI) ratio $> 45\%$
 - Applicant is self-employed or has unstable income
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4. High-Risk Lending Restrictions

Loans in the **Review / Reject** category ($PD \geq 30\%$) should generally be declined unless strong mitigating factors exist.

Acceptable mitigating factors include:

- Fully verified high and stable income
- Significant liquid assets
- Low existing debt obligations
- Long credit history with no past defaults

If none of the above are present, the loan must be rejected.

5. Approve with Caution Guidelines

Loans in the **Approve with Caution** band (5%–20%) may be approved, but risk-mitigation actions should be applied, including:

- Reduced loan amount
- Higher interest rate

- Additional documentation
 - Shorter loan tenor
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6. Fast-Track Approval

Loans with **PD < 5%** are considered low risk and may be automatically approved without manual QA review, provided no policy exceptions are triggered.

7. Explainability & Documentation

For all QA and Review/Reject loans, analysts must document:

- Model PD
- Key risk drivers (e.g., high DTI, short credit history, low income)
- Policy sections used to justify the decision

This ensures auditability, regulatory compliance, and consistent credit decisions.

8. Ongoing Monitoring

The bank regularly reviews:

- Default rates by risk band
- Model calibration
- QA effectiveness
and adjusts PD thresholds and policy rules when needed.