**Credit Policy for Enhanced Monitoring of Substantial Credit Changes**

**Purpose**

The purpose of this credit policy is to establish guidelines for the enhanced monitoring of credit origination strategies that represent substantial credit changes. This policy ensures that such strategies meet set expectations and mitigate potential risks. It applies to all strategies involving exposure limits, usage of new models, and the introduction of new channels.

**Scope**

This policy applies to all employees and departments involved in the credit origination process, including but not limited to credit risk management, compliance, underwriting, and sales.

**Definitions**

* **Exposure Limits:** The maximum amount of credit that can be extended to a borrower or group of related borrowers.
* **New Model:** Any newly developed or substantially modified credit scoring or risk assessment model.
* **New Channel:** Any newly introduced method or platform for originating credit, such as online applications, mobile platforms, or partnerships with third-party vendors.
* **Substantial Credit Change:** Any new strategy involving exposure limits, new models, or new channels that significantly alters the credit origination process.

**Policy**

1. **Identification of Substantial Credit Changes**
   * All strategies representing substantial credit changes must be identified and documented. This includes strategies involving new exposure limits, new models, and new channels.
2. **Risk Assessment**
   * A comprehensive risk assessment must be conducted for each substantial credit change. This assessment should evaluate potential risks, including but not limited to credit risk, operational risk, and compliance risk.
   * The risk assessment should be documented and approved by the Risk Management Committee before the implementation of the new strategy.
   * The First Line of Defense (1LOD) is responsible for identifying the drivers of risk while establishing the new credit strategy. This includes assessing factors such as economic conditions, borrower characteristics, and market trends that could impact the risk profile.
3. **Enhanced Monitoring Requirements**
   * **Exposure Limits:**
     + Strategies involving increased exposure limits must be subject to enhanced monitoring. This includes periodic reviews of portfolio performance, delinquency rates, and loss rates.
     + Monitoring should include stress testing to assess the potential impact of economic downturns or other adverse conditions on the portfolio.
   * **New Models:**
     + New credit scoring or risk assessment models must undergo a rigorous validation process before implementation.
     + Ongoing monitoring of model performance is required, including back-testing and benchmarking against existing models.
     + Any significant deviations from expected model performance must be investigated and addressed promptly.
   * **New Channels:**
     + New channels for credit origination must be monitored for effectiveness and compliance with regulatory requirements.
     + Regular audits should be conducted to ensure data integrity, security, and adherence to internal policies.
     + Customer feedback and complaint data should be reviewed to identify any potential issues or areas for improvement.
4. **Performance Metrics and Reporting**
   * Key performance metrics must be established for each substantial credit change. These metrics should include, but are not limited to, approval rates, delinquency rates, default rates, and overall portfolio performance.
   * Regular reports on the performance of substantial credit changes must be submitted to senior management and the Risk Management Committee.
   * Any significant deviations from expected performance should be reported immediately, along with a plan for corrective action.
5. **Governance and Oversight**
   * The Risk Management Committee is responsible for overseeing the implementation and monitoring of this policy.
   * Regular reviews of the policy and its effectiveness should be conducted, with updates made as necessary to address emerging risks or changes in the business environment.
6. **Second Line of Effective Challenge**
   * The second line of defense, typically the Risk Management and Compliance departments, must provide an independent and effective challenge to the first line's assessment and monitoring of substantial credit changes.
   * This includes a thorough review of the risk assessments, validation processes, and ongoing monitoring activities conducted by the first line.
   * The second line must ensure that any identified risks are adequately mitigated and that the monitoring frameworks are robust and effective.
7. **Training and Awareness**
   * All relevant employees must receive training on this policy and the importance of enhanced monitoring of substantial credit changes.
   * Training should be provided on an ongoing basis to ensure employees remain informed about best practices and regulatory requirements.

**Implementation**

This policy is effective immediately upon approval by the Board of Directors. All credit origination strategies initiated after the approval date that represent substantial credit changes must comply with the requirements outlined in this policy.

**Review and Revision**

This policy shall be reviewed annually by the Risk Management Committee and updated as necessary to ensure its continued effectiveness in mitigating risks associated with substantial credit changes.