

# **Internal Loan Approval Policy**

Version 1.0 - Effective Date: January 2024

## **1. Credit Score Requirements**

All loan applicants must meet minimum credit score requirements based on loan type:

- Personal Loans: Minimum credit score of 620
- Auto Loans: Minimum credit score of 600
- Home Purchase/Refinance: Minimum credit score of 640
- Business Loans: Minimum credit score of 680

Applicants with credit scores below these thresholds require executive approval and must provide additional documentation including proof of income stability and collateral where applicable.

## **2. Debt-to-Income Ratio Standards**

The maximum allowable debt-to-income (DTI) ratio is 43% for all loan types. This includes:

- All existing debt obligations (mortgages, car loans, credit cards, student loans)
- The proposed new loan payment
- Property taxes and insurance (for home loans)

Applicants exceeding this ratio may be approved with:

- Significant compensating factors (high credit score, substantial assets)
- Larger down payment (minimum 20% for home loans)
- Co-borrower with qualifying income

## **3. Employment and Income Verification**

All applicants must demonstrate stable income through:

- Minimum 6 months of continuous employment with current employer
- For self-employed: 2 years of business operation with consistent income
- Documentation requirements:
  - Recent pay stubs (last 2 months)
  - W-2 forms or tax returns (last 2 years)
  - Bank statements (last 3 months)

Income must be verifiable and sufficient to support the proposed loan payment while maintaining the maximum DTI ratio of 43%.

## **4. Adverse Credit Events**

The following waiting periods apply after adverse credit events:

- Bankruptcy (Chapter 7): Minimum 7 years from discharge date
- Bankruptcy (Chapter 13): Minimum 4 years from discharge date (2 years with extenuating circumstances)
- Foreclosure: Minimum 7 years from completion date
- Short

Sale/Deed-in-Lieu: Minimum 4 years from completion date • Late Payments: No more than 2 late payments in the last 12 months Exceptions may be granted for documented extenuating circumstances (medical emergency, job loss due to economic conditions) with executive approval.

## **5. Loan-to-Value Ratios**

Maximum loan-to-value (LTV) ratios by loan type:

- Primary Residence Purchase: 95% LTV (with mortgage insurance)
- Primary Residence Refinance: 90% LTV
- Second Home: 85% LTV
- Investment Property: 80% LTV
- Auto Loans: 110% of MSRP or current value (whichever is lower)

Higher LTV ratios require:

- Excellent credit score (750+)
- Lower DTI ratio (under 35%)
- Significant liquid reserves (6+ months of payments)

## **6. Reserve Requirements**

Minimum reserve requirements after closing:

- Primary Residence: 2 months of PITI (Principal, Interest, Taxes, Insurance)
- Second Home: 4 months of PITI
- Investment Property: 6 months of PITI
- Business Loans: 6 months of operating expenses

Reserves must be in liquid, readily accessible accounts (checking, savings, money market). Retirement accounts may be considered at 60% of value.

## **7. Risk-Based Pricing**

Interest rates are determined by risk assessment:

- Base Rate: Prime rate + 0.5% for excellent credit (750+, DTI < 30%)
- Standard Rate: Prime rate + 2-4% for good credit (680-749, DTI 30-40%)
- High Risk Rate: Prime rate + 4-8% for fair credit (620-679, DTI 40-43%)

Additional rate adjustments:

- +0.25% for credit scores 620-679
- +0.50% for LTV > 85%
- +0.25% for cash-out refinance
- -0.25% for automatic payment enrollment