

# 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