

1. Executive Summary

This report presents the findings of the independent validation of the Lending Club Credit Risk Model, conducted in accordance with SR 11-7 guidance on Model Risk Management. The validation assesses the model's conceptual soundness, implementation accuracy, and ongoing performance monitoring framework.

The Lending Club Credit Risk Model is a Gradient Boosting Classifier designed to predict the probability of loan default for credit decisioning. The model was developed using a sample of 300 Lending Club loan records and employs various features including loan characteristics, borrower information, and credit metrics.

1.1 Key Findings

The validation team's assessment has identified the following key findings:

Finding 1: Limited Sample Size

The model was developed using only 300 loan records, which is insufficient for a robust credit risk model. This small sample size limits the model's ability to generalize to the broader population and increases the risk of overfitting.

Finding 2: Lack of Temporal Validation

The model development process did not include temporal validation, which is a critical component for credit risk models. Without out-of-time testing, the model's performance stability over time cannot be adequately assessed.

Finding 3: Feature Engineering Strengths

The feature engineering process, including FICO score categorization, DTI bucketing, and log transformations, follows industry best practices and enhances the model's interpretability and performance.