BEST PRACTICES

A Collection of Best Practices for:

Consumer Finance

Includes Detailed Best Practices for:

- Back Office Operations
- Lines of Business

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Credit Operations

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The Credit Operations function is responsible for reviewing all credit-related relationships (consumer loans, credit cards, mortgages, commercial loans, construction loans, etc.), establishing controls to mitigate the organization's (usually a bank) risk and monitoring the organization's portfolio of loans (and other credit-related products). Credit Operations staff members support loan underwriters, originators and processors in making credit decisions, providing tools and documentation to assist in the review of loan documents and documentation. They also put in place controls to ensure that the proper documentation is collected, reviewed and stored in the company's loan servicing system for future review and maintenance (i.e., quality control). After the closure of a loan, Credit Operations staff members will review the organization's loan portfolio to determine credit risk and produce reports to management detailing portfolio performance and health - many times, these reports determine future underwriting requirements and guidelines.

Best Practice 1-A

Periodically Train Credit Operation Employees on the Bank's Credit Policies to Standardize Messages Given to Customers

Document the bank's credit policies in a clear, concise written format and ensure that all communications concerning credit standards (to customers and employees, typically through the bank's online portal, in-person interactions, phone calls, Intranet-based resources, etc.), policy, and business and incentive plans are consistent throughout the bank to eliminate confusion and conflict of priorities. Periodically provide Credit Operation employees with training focused on the bank's credit policy and credit analysis practices to keep employees up-to-date and to ensure that the same vocabulary is used throughout the bank. All training documentation should be available within a centrally located online database (typically located within the bank's online portal, Intranet-based resource, etc.).

Typical Practice (the Status Quo): Train Credit Operation employees on the bank's credit policies and credit analysis practices upon being hired. Ensure that all training materials (manuals, pamphlets, worksheets) are centrally located in a physical or online location to allow employees to reference them when needed. Allow Credit Operation employees to create their own customer interaction guide to keep their communications with customers over credit policies consistent. It is the responsibility of the Credit Operation employees to keep up-to-date on the bank's credit policies and to provide customers (includes external and internal customers) with consistent and appropriate information.

Benefits of this Best Practice: Periodically training Credit Operation employees on the bank's credit policies and credit analysis practices not only keeps employees up-to-date on currently practiced credit policies, but it ensures all relevant employees have and are able to relay the same information to all customers (both external and internal customers). Using a standardized, clear and concise written credit policy, furthermore, supplements employee training and information consistency while making such written documentation centrally located (typically through the bank's online portal, Intranet-based resource, etc.) ensures that all employees and customers have access to said information. This, therefore prevents confusion, conflicts of priorities and even reduces the amount of times customers feel the necessity to contact Credit Operation employees for more explanations, thereby increasing customer satisfaction and allowing Credit Operation employees to move on to other tasks.

Related KPIs: Commercial Allowance for Credit Losses, Percentage of Credit Cards 30+ Days Past Due, Average Credit Card Balance, Average Debt-to-Income (DTI) Ratio: Consumer Loans, Commercial Loan Charge-Off Rate, Mortgage Application Approval Rate, Cycle Time: Commercial Loan Decision, Cycle Time: Consumer Loan Decision

Best Practice 1-B

Supplement Stress-Testing on the Credit Portfolio with Debtor Stress-Testing to Improve Behavioral Forecast Accuracy

Augment stress-testing that measures the impact of adverse events on the bank's credit portfolio with stress-testing to measure the impact of those events on debtors who have a significant amount of risk exposure in the credit portfolio.

Typical Practice (the Status Quo): Utilize a stress-testing process in which the bank analyzes the effect of extreme or adverse economic events on the credit risk profile of the overall credit portfolio.

Benefits of this Best Practice: Stress-testing on debtors to supplement stress-testing on the credit portfolio can help to forecast the behavior of debtors and anticipate instances of default. This can help to the bank to take measures that will reduce its risk exposure in the case of adverse economic events.