

Risk Management and Audit > Credit Risk Management

Title	Determine criteria in loan approval
Code	106702L6
Range	Development of criteria in loan approval for defining the credit culture of the bank for guiding lending activities
Level	6
Credit	5 (for reference only)
Competency	<p>Performance Requirements</p> <ol style="list-style-type: none"> 1. Conduct research on credit strategies <p>Be able to:</p> <ul style="list-style-type: none"> • Conduct research on trends and development in the global economy and regional market in order to anticipate the outlook of economy and banking industry • Evaluate different approaches in credit strategy and their performance under different scenarios in order to choose an approach which is aligned with the bank's overall strategies • Conduct research on borrowers' behavior in order to identify factors which can predict risks of default 2. Develop risk appetite of the bank <p>Be able to:</p> <ul style="list-style-type: none"> • Develop risk tolerance level for the whole portfolio or different segment by specifying how much and what types of risk the bank agrees to undertake • Specify portfolio limits for maximum exposures by geographic location, industry, types of borrower, product types, etc. in order to guard against over-extension of credit to interrelated groups • Conduct analysis on the bank's strategy objectives, past performance of different types of credit asset, the bank's ability in absorbing loss, return level, etc. for determining the risk tolerance level 3. Develop lending criteria for each product <p>Be able to:</p> <ul style="list-style-type: none"> • Identify factors that may affect repayment ability of applicants, e.g. age, business history, financial strength, cash flow projection, business forecast, other banks' relationship, income, credit history, purpose of loan, existing financial commitments and calculate their impact on the delinquency for different types of loan • Develop different methods (e.g. matrix) for scoring different information in the application • Determine the threshold of credit score for different types of products to provide guidelines for determining who can obtain the credit
Assessment Criteria	<p>The integral outcome requirements of this UoC are:</p> <ul style="list-style-type: none"> • Development of an appropriate set of lending criteria and scoring method which can strike a balance between risk and return to the banks. These should be supported by data from research on economic development, trends in banking industry and estimation on debtors' default probability.
Remark	