

LOAN WORKSHEET #8 – CONSUMER INSTALLMENT AND CREDIT CARD LOANS

Consumer installment and credit card loans are borrowings obtained to: purchase consumer goods; cover unforeseen expenses; pay education or travel expenses; or cover other non-business needs. Repayment is expected from personal after- tax income. Risks associated with this type of lending stem from borrowers becoming overly leveraged, unemployed or experiencing health problems. Banks are subject to a high degree of risk as a result of weak or uninformed credit assessment. An excessive level of past-due loans or the liberal granting of extensions, renewals and combinations of credit are symptomatic of poor risk selection and servicing.

Evaluate	Comments
<p>_____ 1. Does written policy contain the following criteria pertinent to consumer lending?</p> <p style="margin-left: 40px;">A. Credit requirements related to:</p> <ul style="list-style-type: none"> • Length of employment. • Length of residence. • Credit history. <p style="margin-left: 40px;">B. Does the bank use a uniform approval methodology such as a credit scoring system? If so, consider the following points:</p> <ul style="list-style-type: none"> • Are point values and adjectival ratings uniformly applied from one application to another? • Are weighting factors reasonable? 	

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Evaluate	Comments
<ul style="list-style-type: none"> • Does the minimum acceptable score indicate a high tolerance of risk? • Is the indicated risk tolerance acceptable in relation to bank capital and earnings? C. Determine appropriateness of terms. Amortization schedules should be evaluated on their ability to maintain or improve the original loan-to-value ratio as collateral depreciates or depletes. <p>_____ 2. Evaluate credit administration.</p> <ul style="list-style-type: none"> A. Evaluate procedures for identifying and monitoring unfavorable portfolio trends by collateral, purpose, geographic location, underwriting, etc.. B. Evaluate collection policies and maintenance of the charged-off loan ledger. C. Review the bank's decline file to further assess the bank's tolerance of risk. <p>_____ 3. Perform credit evaluation.</p>	

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CREDIT CARD LOANS (continued)**

Evaluate	Comments
<p>A. Obtain trial balance and past due list.</p> <p>B. Select a statistically valid sample and review for compliance with policy and quality.</p>	