CREDIT RISK ANALYSIS & RESOLUTION

Practical underwriting reference for LAP, Home Loan and MSME cases

Purpose: This guide provides a structured approach to identifying credit risks, validating borrower strength, documenting mitigants and arriving at a reasoned credit decision. It is an operational reference, not a substitute for the lender's policy, regulatory requirements or delegated authority.

1. What is Credit Risk Analysis?

Credit risk analysis is the assessment of the possibility that a borrower may fail to repay the loan as agreed. The credit officer should evaluate the borrower's repayment capacity, willingness to pay, business stability, banking conduct, existing obligations, collateral quality and the purpose of the loan.

A sound appraisal answers five questions: (1) Is the customer genuine? (2) Is income stable and verifiable? (3) Is repayment affordable? (4) Is the property/security legally and technically acceptable? (5) Are the identified risks adequately mitigated?

2. Key Risk Areas and How to Analyse Them

Risk area	What to verify / warning signs	Possible resolution / mitigation
Identity & profile	KYC mismatch, address inconsistency, unexplained profile changes, adverse field feedback.	Re-verify original KYC, residence and business address; obtain acceptable supporting proof; resolve discrepancies before approval.
Income & cash flow	Income not supported by records, seasonal volatility, inflated sales, high household expenses.	Triangulate business activity through site visit, bank credits, GST/ITR and stock/customer/supplier evidence; use conservative assessed income.
Banking conduct	Frequent cheque/NACH bounces, overdue entries, cash withdrawals after credits, irregular credits.	Review at least the required banking period; identify bounce reasons and recurrence; obtain proof of regularisation and assess current conduct.
Obligations & leverage	Undisclosed loans, high FOIR, multiple recent enquiries, revolving credit dependence.	Obtain bureau and bank statements; reconcile all EMIs; calculate FOIR using policy method; reduce eligible loan amount or close obligations with proof.
Credit history	DPD, SMA/NPA, settlements, write-offs, suit-filed or repeated delinquencies.	Check severity, recency, frequency and reason; verify closure/regularisation; escalate material derogatory history as per policy.
Business stability	Short vintage, business not operating, dependency on one customer, weak market or seasonal risk.	Verify vintage and operations through PD; assess alternate income, customer concentration and seasonality; apply conservative income.
Property / collateral	Title gaps, encroachment, access issue, valuation mismatch, unauthorised construction or negative location.	Obtain legal and technical clearance; reconcile ownership and boundaries; use approved valuation; do not treat collateral as a substitute for repayment capacity.
End use & fraud	Purpose differs from application, third-party fund movement, forged documents or unusual urgency.	Validate end use and fund trail; independently confirm documents; escalate suspected fraud and stop processing as required by policy.

3. Financial Assessment

A. Repayment capacity

• Identify all existing obligations from bureau, bank statements, loan schedules and customer declarations.
• Calculate net assessed monthly income after reasonable business and household expenses.
• Calculate FOIR / obligations ratio strictly as per the lender's policy.
• Stress-test repayment for income reduction, business slowdown or higher expenses.
• Consider the proposed EMI along with existing obligations and expected cash-flow cycle.

Illustrative formula (use the organisation's prescribed method):

FOIR (%) = Total monthly debt obligations ÷ Net monthly income × 100

B. Income validation

For salaried customers, verify salary credits, employment vintage, employer profile, payslips and Form 16 / ITR where applicable. For self-employed customers, compare bank credits, sales records, GST returns, ITR, business activity and field observations. Do not equate total bank credits or GST turnover directly with net income.

C. Bureau assessment

Review repayment history account-wise. Distinguish a one-off technical delay from repeated payment stress. Confirm whether overdue amounts are still outstanding, regularised or settled. A settled / written-off account should not be treated as equivalent to a normally closed account.

4. PD (Personal Discussion) and Field Verification

During PD, independently establish the customer's occupation, business operations, income sources, family profile, monthly expenses, liabilities, loan purpose and property details. Observe whether the business is active and consistent with the declared scale. Cross-check material statements with documents and third-party evidence where permitted.

PD checklist

■ Customer identity and family details verified.
■ Residence and business existence / vintage checked.
■ Nature of business, products/services and operating cycle understood.
■ Sales, margins, seasonality and major customers/suppliers discussed.
■ Household expenses and all liabilities captured.
■ Loan purpose and end use understood.
■ Property ownership, possession, access and occupancy observations recorded.
■ Key discrepancies documented with evidence and explanation.

5. Risk Resolution Framework

Use the following sequence for every material risk:

Step	Action
1. Identify	State the exact risk. Avoid vague remarks such as 'profile not satisfactory'.
2. Evidence	Mention the document, bureau entry, bank transaction, PD observation or verification that supports the concern.
3. Assess impact	Explain how the risk can affect income, repayment, genuineness, legal enforceability or security.
4. Mitigate	Specify a practical control: additional proof, obligation closure, lower loan amount, co-applicant income, clarification, legal/technical clearance or enhanced monitoring—only where policy permits.
5. Reassess	Check whether the mitigation fully resolves the risk or only reduces it. Recalculate eligibility if required.
6. Recommend	Record approve / conditional approve / hold / reject with clear policy basis and approval authority.

6. Writing Strong Risk Remarks

A good risk remark is specific, evidence-based and balanced. It should state the observation, its impact and the resolution or reason for rejection.

Weak remark: “Banking is not proper.”
Better: “The bank statement reflects repeated NACH returns during the review period. The customer has provided evidence of regularisation for the latest overdue; however, recurrence indicates repayment discipline risk. Eligibility has been reassessed after including all active obligations, and the case is recommended only subject to policy clearance and satisfactory current conduct.”

Weak remark: “Income not justified.”
Better: “Declared monthly business income is not fully supported by the available banking and tax records. The assessed income has therefore been restricted to the verifiable level, based on bank credits, business activity observed during PD and supporting records. Repayment eligibility has been recalculated on the conservative assessed income.”

Weak remark: “Customer has many loans.”
Better: “Bureau and banking review indicate multiple active obligations. All identifiable EMIs have been considered in the repayment assessment. The resulting FOIR is [X]% as per the applicable calculation method; the proposed exposure has been reduced / held in line with policy.”

7. Sample Risk Analysis Matrix

Observation	Risk level	Resolution / decision
One isolated bounce with documented technical reason and subsequent regularisation	Moderate; verify context	Validate evidence, check current conduct and apply policy. Do not ignore repeated instances.
Income materially higher than verifiable cash flow	High	Use conservative assessed income; if eligibility fails, reduce amount or decline.
Unresolved title / ownership discrepancy	Critical	Keep on hold; obtain satisfactory legal resolution before disbursement. Reject if not curable.
Repeated recent DPD across multiple loans	High	Assess severity and current status; escalate as required. Decline if outside policy.
Business closed / not traceable during PD	Critical	Stop positive recommendation; conduct re-verification. Reject if genuineness or income cannot be established.

8. Final Credit Recommendation Checklist

- ■ KYC, profile and purpose are verified.
- ■ Income is assessed conservatively and supported by evidence.
- ■ All liabilities are captured and repayment capacity is within policy.
- ■ Bureau history and banking conduct are reviewed and explained.
- ■ PD findings are consistent with documents and declared profile.
- ■ Legal, technical and valuation requirements are satisfactory.
- ■ All material risks have a documented resolution or clear reason for rejection.
- ■ Conditions precedent, if any, are measurable and verifiable before disbursement.
- ■ Recommendation is within delegated authority and current credit policy.

Important: Never use a collateral comfort, verbal assurance or proposed condition to override a mandatory policy deviation. Do not recommend disbursement until all required legal, technical, KYC, fraud and policy checks are complete.

Prepared as a practical learning reference for credit underwriting. Always follow your organisation's latest credit policy, product programme, regulatory instructions and approval matrix.