

Machine Learning for Credit Scoring

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Contents

1	Introduction	3
1.1	Presentation of the subject	3
1.2	Goal of the project	3
2	Team Presentation	4
3	Data Presentation	5
3.1	The rough data	5
3.2	Presentation of grades	7
4	Data cleaning	8
5	Data Regression and Results	9
6	Conclusion	10
7	Bibliography	11
8	Annex	12

1 Introduction

1.1 Presentation of the subject

Bankers make loans, it is very important for the economy. This money creation process lets the economy works having something which makes exchanges possible. Also it lets people make investments and helps the development of the economy.

Yet bankers have a problem : the default risk. They can make loans but if they are not paid back, it is the bankrupt for them.

To this issue they have a solution. They make loans with different interest rate according to the default risk of each borrower. To represent those risks they grade each loans depending on the borrower.

1.2 Goal of the project

Now bankers know that they need to grade borrowers. So our new issue is to know how to grade.

To find a solution to that problem we will work on grade system of LendingClub. It is an american peer-to-peer lending company which uses grade from A to G. The best one is A and the worst one is G.

Our goal is to make a machine learning model which could attribute a grade using some information about the borrower. To do that we will use a data set coming from LendingClub and the idea would be doing a regression on the relevant characteristics of people.

2 Team Presentation

We all three are attending courses at ISFA school in Lyon to become actuaries.
We are doing our first year of master.

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3 Data Presentation

3.1 The rough data

The data set that we chose comes from Kaggle. It can be downloaded [here](#). It is data on many mortgages from LendingClub between 2007 and 2014. LendingClub is a peer-to-peer lending company headquartered in San Francisco, California. It was created in 2006.

In the data each row is a loan and each column is a characteristic of the loan. There are a lot of characteristics as there are 74 columns. Some of them are almost empty or useless for our work so we won't deal with them. Nevertheless we still have many and enough parameters.

Let's introduce the parameters :

id : A unique LC assigned ID for the loan listing.

member_id : A unique LC assigned Id for the borrower member.

loan_amnt : The listed amount of the loan applied for by the borrower.

funded_amnt : The total amount committed to that loan at that point in time.

funded_amnt_inv : The total amount committed by investors for that loan at that point in time.

term : The number of payments on the loan. Values are in months and can be either 36 or 60.

int_rate : Interest Rate on the loan

installment : The monthly payment owed by the borrower if the loan originates.

grade : LendingClub assigned loan grade.

sub_grade : LendingClub assigned loan subgrade.

emp_title : The job title supplied by the Borrower when applying for the loan.

emp_length : Employment length in years. Possible values are between 0 and 10 where 0 means less than one year and 10 means ten or more.

home_ownership : The home ownership status provided by the borrower during registration.

annual_inc : The self-reported annual income provided by the borrower during registration.

verification_status : Verified, source verified or not verified.

issue_d : The month which the loan was funded.

loan_status : Current status of the loan.

pymnt_plan : Indicates if a payment plan has been put in place for the loan.

desc : Loan description provided by the borrower.

purpose : A category provided by the borrower for the loan request.

title : The loan title provided by the borrower.

zip_code : The first 3 numbers of the zip code provided by the borrower in the loan application.

addr_state : The state provided by the borrower in the loan application.

dti : A ratio calculated using the borrower's total monthly debt payments on the total debt obligations.

delinq_2yrs : The number of 30+ days past-due incidences of delinquency in the borrower's credit file for the past 2 years.

earliest_cr_line : The month the borrower's earliest reported credit line was opened.

inq_last_6mths : The number of inquiries in past 6 months (excluding auto and mortgage inquiries).

mths_since_last_delinq : The number of months since last delinquency.

mths_since_last_record : The number of months since the last public record.

open_acc : The number of open credit lines in the borrower's credit file.

pub_rec : Number of derogatory public records.

revol_bal : Total credit revolving balance.

revol_util : Revolving line utilization rate, or the amount of credit the borrower is using relative to all available revolving credit.

total_acc : The total number of credit lines currently in the borrower's credit file.

initial_list_status : The initial listing status of the loan. Possible values are – W, F.

out_prncp : Remaining outstanding principal for total amount funded.

out_prncp_inv : Remaining outstanding principal for portion of total amount funded by investors.

total_pymnt : Payments received to date for total amount funded.

total_pymnt_inv : Payments received to date for portion of total amount funded by investors.

total_rec_prncp : Principal received to date.

total_rec_int : Interest received to date.

total_rec_late_fee : Late fees received to date.

recoveries : Post charge off gross recovery.

collection_recovery_fee : Post charge off collection fee.

last_pymnt_d : Last month payment was received.

last_pymnt_amnt : Last total payment amount received.

next_pymnt_d : Next scheduled payment date.

last_credit_pull_d : The most recent month LendingClub pulled credit for this loan.

collections_12_mths_ex_med : Number of collections in 12 months excluding medical collections.

policy_code : Publicly available policy_code=1 new products not publicly available policy_code=2.

application_type : Indicates whether the loan is an individual application or a joint application with two co-borrowers.

acc_now_delinq : The number of accounts on which the borrower is now delinquent.

There are a lot of parameters and we will have to select which ones we keep and which ones we leave.

There are even more parameters in the original data set but we did not introduce those with too many missing values.

3.2 Presentation of grades

LendingClub gives a grade for every borrowers. The grade reflects the risk from the borrower for LendingClub. Those grades are letters between A and G and have the following characteristics :

- A : Risk of default is negligible, interest rate between 8.46% and 10.81%.
- B : Risk of default is very low, interest rate between 13.33% and 16.08%.
- C : Risk of default is moderate, interest rate between 17.30% and 20.74%.
- D : Risk of default is average, interest rate between 22.62% and 30.99%.
- E : Risk of default is possible, interest rate between 28.90% and 29.00%.
- F : Risk of default is likely, interest rate between 29.35% and 30.75%.
- G : Risk of default is very high, interest rate between 30.79% and 30.99%.

It is those grades that we want to predict using machine learning.

4 Data cleaning

5 Data Regression and Results

6 Conclusion

7 Bibliography

LendingClub Website : <https://www.lendingclub.com/>

Loan grades information : <https://www.lendingclub.com/foliofn/rateDetail.action>

8 Annex