

# Loan Portfolio Risk & Performance Evaluation

## CapitalWave Microfinance Bank - Insights, Findings & Recommendation

- **Title:** Loan Portfolio Risk & Performance Evaluation
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- **Tool Used:** MySQL
- **Organization:** CapitalWave Microfinance Bank
- **Project Type:** SQL Case Study

### Executive Summary

This analysis presents a strategic evaluation of CapitalWave Microfinance Bank's loan portfolio, aimed at supporting the Risk and Credit team in making informed decisions. Using SQL-based data extraction and aggregation techniques, we identified patterns that affect approval decisions, borrower reliability, and portfolio risk. The insights derived reveal operational gaps, performance trends, and areas for immediate strategic intervention.

### Elevated Default Risk Among Low-Income and Low Credit Score Borrowers

#### Findings:

A significant portion of defaults occurred among borrowers earning less than \$2,000 and those with credit scores below 600. Despite these financial weaknesses, some of these individuals were still approved, pointing to inconsistencies in the credit assessment process.

#### Recommendation:

Strengthen the approval criteria by integrating stricter income and credit score thresholds. Introduce tiered risk categories where higher-risk borrowers may be subject to collateral or co-guarantors before approval.

### Loan Purpose Influences Volume and Risk

#### Findings:

Loans categorized under **Personal**, **Business**, and **Medical** purposes accounted for the highest volume. However, defaults were disproportionately high in certain

categories, especially business loans, likely due to income instability or poor cash flow in SMEs.

**Recommendation:**

Closely monitor high-volume purposes. Implement differentiated interest rates or approval conditions depending on risk profiles associated with each loan category. Purpose-specific scoring models could enhance credit risk evaluation.

**Employment Status Affects Repayment Behavior**

**Findings:**

Self-employed and unemployed individuals showed higher tendencies to default, while salaried customers not only received higher loan amounts but also maintained more favorable repayment records.

**Recommendation:**

Incorporate employment status as a weighted factor in the credit scoring system. Offer lower-risk, flexible repayment options for self-employed individuals, or require supporting business documentation to assess financial stability.

**Demographic Patterns Reflect Lending Gaps**

**Findings:**

Loan uptake varied across gender and employment categories, with male salaried customers dominating approvals. This imbalance may reflect systemic biases or limited financial access for certain groups.

**Recommendation:**

Design inclusive financial products targeted at underrepresented groups, particularly unemployed women and informal workers. Partner with community development programs to expand responsible access to credit.

**Long-Term Loans Require Stronger Monitoring**

**Findings:**

While loans exceeding 36 months were fewer in number, they carry a higher default risk due to the extended repayment period and potential for economic disruption over time.

**Recommendation:**

Establish stricter monitoring policies for long-term loans. Consider periodic re-evaluations of borrower performance during the term and trigger alerts for early signs of default risk.

**High-Value, High-Credit Borrowers Are Strong Assets**

**Findings:**

Customers with approved loan amounts exceeding \$30,000 and credit scores above 700 demonstrated consistent repayment behavior. These profiles represent the bank's most reliable and profitable segment.

**Recommendation:**

Implement relationship management strategies and offer loyalty products to retain this customer group. Prioritize them for refinancing offers, premium credit tiers, and long-term financial planning solutions.

**Conclusion**

The insights gained through this analysis enable CapitalWave Microfinance Bank to transform its loan portfolio from reactive to proactive. By refining credit policies, embracing credit score segmentation, and aligning loan structures with customer profiles, the bank can reduce default risks, increase profitability, and support financial inclusion.