Credit Risk & Default Prediction Report

Project #4 – Financial Risk Analysis for Credit Card Customers

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Role Targeted:
Business Analyst | Operations Analyst | CRM Specialist

Tools Used:
Excel • SQL • Power BI

Date Completed:
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Portfolio Repository:

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Project #4: Credit Risk & Default Prediction Analysis Report

Project Overview

This project analyzes **customer credit default risk** using real-world credit card client data. It examines the influence of **demographic** and **financial indicators**—such as **education level**, **payment history**, **age**, and **credit limits**—on default likelihood. The goal is to support **risk mitigation strategies** through actionable, data-driven insights.

Objectives

- Measure **default rates (%)** across **education levels**
- Identify **risky patterns** in **past payment behavior**
- Analyze **default trends** across **age groups**
- Assess **correlation** between **credit limits** and **default risk**
- Support **data-informed decisions** in **credit and risk management**

Tools Used

- **Excel -** Data Cleaning & Preparation
- **SQL (Microsoft SQL Server) -** Data Extraction & Analysis
- **Power BI -** Data Visualization, Calculated Fields & Interactive dashboard

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Dataset Source

This project uses the dataset **"Default of Credit Card Clients"** from the UCI Machine Learning Repository. It contains **credit card holder data**, including **demographics**, **credit limits**, **payment history**, and a **default payment indicator**, making it suitable for financial risk analysis and modeling.

Data Cleaning & Preparation

Performed in **Excel** and **SQL**, the dataset was cleaned and structured for analysis through:

- **Removed irrelevant columns** (e.g., `BILL_AMT`, `PAY_AMT`, `unused fields`) to reduce noise
- **Renamed and standardized columns** (e.g., *X1* → *LIMIT_BAL*, *X3* → *EDUCATION*)
- **Normalized categorical fields** (e.g., EDUCATION, MARRIAGE, SEX) for consistency
- **Handled missing values and fixed data inconsistencies**
- Created **a Data Dictionary** tab to document all fields and descriptions
- **Exported cleaned dataset** as `.xlsx`, `.csv` for use in **SQL** analysis and **Power BI** visualizations

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Key Insights & Findings

1. Default Rate by Education Level

- **Highest default rates** observed among customers with **education levels 1, 2, and 3**.
- May indicate **increased risk** associated with **lower education attainment**.

Summary of Impact: Incorporate **alternative credit scoring** for customers with less formal education.

2. Default Rate by Payment History (PAY_0)

- **Payment status ≥ 2** showed significantly **higher default rates** (e.g., **77.78%** for PAY_0 = 7).

Summary of Impact: Late payments are a **critical signal** for future default risk. **Early action** is necessary.

3. Age vs. Default Rate

- **Highest default rates** in customers **under 25 and over 65**.

Summary of Impact: Age segments at both extremes may require **customized risk evaluation** and credit support.

4. Credit Limit vs. Default Rate

- **Higher credit limits** correlated with **lower default rates** overall.
- However, some **high-credit customers still defaulted**.

Summary of Impact: Credit assessments should factor in **behavioral trends**, not just limit size.

Power BI Dashboard Preview

The Power BI dashboard delivers **interactive insights** on:

- **Default Rate by Education Level** (%)
- **Default Rate by Payment History** (%)
- **Age vs Default Rate** (%)
- **Credit Limit vs Default Rate** (%)
  - **Dashboard Name**: *Credit Risk & Default Analysis Dashboard (**Power BI Visualization**)*
  - **Dashboard Preview:** *Published to Power BI and saved as `.pbix` file*
  - **Dashboard Preview:** *See Figure 1 below*

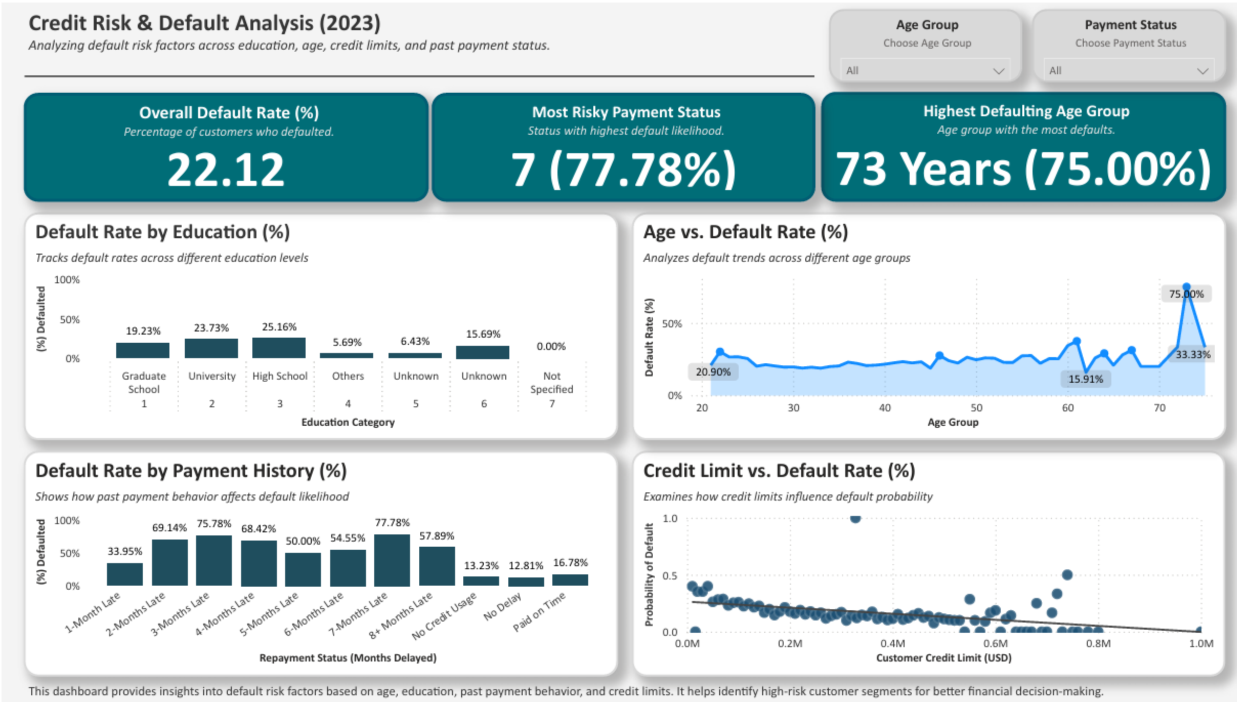

Figure 1: Credit Risk & Default Analysis Dashboard – Power BI Visualization

Business Impact & Recommendations

This analysis supports **financial decision-makers** in reducing risk and improving credit scoring by:

1. Early Identification of High-Risk Customers

- Trigger **alerts** for customers with a history of **late payments**
- Prioritize **preventative measures** to reduce future default exposure

2. Improve Credit Scoring Policies

- Factor in **age** and **education level** to design more **inclusive and accurate** credit models
- Support **data-driven credit risk evaluation** using demographic segmentation

3. Credit Limit Optimization

- Use **behavioral insights** to customize **credit limits** based on repayment history
- Reduce exposure by tailoring **limits to risk profiles**

SQL Queries & Data Extraction

SQL (**MySQL**) was used for **core data analysis**. Below are the primary queries:

1. Age vs Default Rate

```
SELECT AGE, COUNT(*) AS Total_Customers,
       SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) AS Defaults,
       (SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) * 100.0 / COUNT(*)) AS
   Default_Rate_Percentage
FROM Credit_Risk_Analysis_Table
GROUP BY AGE
ORDER BY AGE;
```

Purpose: Analyze how **default rates** vary by **customer age** to identify **high-risk age groups**.

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2. Credit Limit vs Default Rate

```
SELECT LIMIT_BAL, COUNT(*) AS Total_Customers,
       SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) AS Defaults,
       (SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) * 100.0 / COUNT(*)) AS
   Default_Rate_Percentage
FROM Credit_Risk_Analysis_Table
GROUP BY LIMIT_BAL
ORDER BY LIMIT_BAL;
```

Purpose: Evaluate the relationship between **credit limit size** and **customer default probability**.

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3. Default Rates by Education Level

```
SELECT EDUCATION, COUNT(*) AS Total_Customers,
       SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) AS Defaults,
       (SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) * 100.0 / COUNT(*)) AS
   Default_Rate_Percentage
FROM Credit_Risk_Analysis_Table
GROUP BY EDUCATION
ORDER BY Default_Rate_Percentage DESC;
```

Purpose: Assess **default likelihood** across **education levels** to reveal **risk patterns** by education status.

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4. Global Average LPI Scores Over Time

```
SELECT PAY_0, COUNT(*) AS Total_Customers,
       SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) AS Defaults,
       (SUM(CAST(DEFAULT_NEXT_MONTH AS INT)) * 100.0 / COUNT(*)) AS
   Default_Rate_Percentage
FROM Credit_Risk_Analysis_Table
GROUP BY PAY_0
ORDER BY PAY_0;
```

Purpose: Identify how **past repayment behavior** (recent payment status) correlates with **default risk**.

SQL Summary

All data analysis was performed using **SQL (MySQL)** to calculate key default metrics before visualization in **Power BI**. SQL queries were used to segment customer groups, calculate default rates by demographic and financial attributes, and prepare accurate metrics for visualization. This structured approach ensured **clean, consistent, and reliable insights** throughout the dashboard.

Key SQL Queries Used:

- **Default Rate by Payment History**
- **Default Rate by Education Level**
- **Age vs. Default Rate** (%)
- **Credit Limit vs. Default Rate** (%)

File Export & Submission

- **Cleaned dataset** exported as .xlsx and .csv for use in **SQL** and **Power BI**
- **Power BI Dashboard** .pbix saved for **portfolio use**
- **SQL Query File** .sql saved for **portfolio use**
- **Dashboard image** exported as .png and .pdf for **professional sharing**
- Finalized documentation (**this report**) saved as .docx and .pdf
- **GitHub README** included as both README.md and .pdf
- All **project files** are organized and stored in **GitHub** and **LinkedIn portfolio** for **easy access**

Final Thoughts

This project offers a **structured approach** to analyzing **credit risk** using real-world financial data. Through **SQL segmentation** and **Power BI dashboards**, the analysis shows how **demographic** and **behavioral factors** shape default patterns—skills aligned with expectations for **Business Analyst**, **Operations Analyst**, and **CRM Specialist** roles, where bridging **technical insight** and **practical decisions** is essential.

The **interactive dashboard** and all supporting files are included in my professional portfolio on GitHub, including the Power BI file: **Credit_Risk_Analysis_Dashboard.pbix** and the SQL queries used in this analysis: **Credit_Risk_Analysis_Queries.sql**.