Abstract:

Without a doubt, financial lending services hold a great amount of significance for any individual, business or enterprise. As such services are required by an individual or a business to achieve or accomplish their goals and to compete with the giants of their fields. Financial loans are a major part of the primary source of capital not only in the emerging economies but also in the developed capital markets by both individuals and enterprises. As the lending growth by the financial firms and the banks are considered as the key factor for inflation level and interest rate of any country which drives its economic growth and depicts its economic condition. The economic growth of the real economy is the primary role of the financial firms. With such great importance and benefits of financial lending come some major issues and bottleneck problems. The most common and substantial issue in the domain of financial lending is the fair and successful lending of loans while keeping the ratio of loan defaulters to the least minimal value. In the financial lending, the risk of loan defaulters can never be neutralized but can be minimized. The purpose of this study is to provide a comparison between Decision Tree and Random Forest algorithm towards a recommendation engine to predict the loan defaults. This kind of models becomes inevitable as the issue of bad loans is very much critical in the financial sector especially in micro financing banks of various underdeveloped and developed countries.