

Figure 1:

Left Panel: A histogram of the interest rate charged on the loans. The distribution is moderately right skewed.

Middle Panel: The relationship between the residuals and the fitted values shows some clear patterns when using a lineal relationship between the interest rate and the FICO score. This suggests the need to introduce a quadratic relationship with the FICO score.

Right Panel: Once the square of the FICO score is introduced, most of the previous patterns observed in the relationship between the residuals and the fitted values are eliminated.