

# Congratulations! You passed!

TO PASS 80% or higher

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GRADE  
100%

## Another application: financial credit risk

TOTAL POINTS 1

1. Select all statements that are descriptive of or true about credit scoring:

1 / 1 point

☒ Helps banks to manage the risk of incoming loan applications.

✓ **Correct**

Beyond managing the risk of a bank's existing portfolio of loans, credit scoring also drives lending decisions in the first place. High risk applications may be declined, or may be offered higher APRs and/or lower credit limits.

☐ Always benefits from using a small, selective set of variables.

☒ A type of risk model.

✓ **Correct**

This predictive model in this case is sometimes known as a risk model, although that term can also apply to predicting all kinds of risks, such as accidents, earthquakes, and all kinds of things.

☒ Allows banks to manage the risk of their existing portfolio of loans.

✓ **Correct**

In the case of a bank portfolio with a given expected rate of default, scoring each loan for risk with an effective predictive model. Some get high-risk scores and others low-risk scores -- dividing the portfolio into two halves, one with a high default rate. and the other with a low default rate. Credit scoring has divided the portfolio into two completely different sub-portfolios, one safe and one hazardous. The bank can treat each sub-portfolio accordingly, mitigating risk and managing expectations.

☒ Applying predictive modeling to predict which debtors will become delinquent.



**Correct**

True by definition.