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(An autonomous Institution affiliated to Anna University)

Experiment 2: Loan Amount Prediction using Linear Regression

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1 Aim

To apply Linear Regression to predict the loan amount sanctioned to users using the provided dataset.

2 Libraries Used

The experiment utilizes the following core Python libraries:

- **Pandas:** For data manipulation and loading CSV files.
- **NumPy:** For numerical operations, especially for handling arrays.
- **Matplotlib & Seaborn:** For data visualization and plotting graphs.
- **Scikit-learn:** For implementing the Linear Regression model, preprocessing data, and evaluating performance.

3 Objective

To develop a Python program using the Scikit-learn library to build and evaluate a Linear Regression model for loan amount prediction. The secondary objective is to visualize and interpret the results to gain insights into the model's performance and the influence of various features.

4 Mathematical Description

Linear Regression is a supervised learning algorithm that finds the best linear relationship between a dependent variable (y) and one or more independent variables (X). The model is represented by the equation:

$$y = w_0 + w_1x_1 + w_2x_2 + \cdots + w_nx_n$$

where y is the predicted value, w_0 is the intercept, and w_1, \dots, w_n are the coefficients for the features x_1, \dots, x_n .

The coefficients are typically found using methods like the **Normal Equation**:

$$w = (X^T X)^{-1} X^T y$$

or by iterative optimization using **Gradient Descent**, which minimizes the Mean Squared Error (MSE) cost function.

5 Code with Plot

The following sections detail the implementation steps from loading the data to visualizing the results. The complete notebook can be found at:

<https://colab.research.google.com/drive/1n0g0KsdB0dNnbC9o3tz2XlrkPUwnK8-J>

5.1 Data Loading

```
1 import pandas as pd
2 import numpy as np
3 import matplotlib.pyplot as plt
4 import seaborn as sns
5 from google.colab import drive
6
7 drive.mount('/content/drive')
8 train_path = '/content/drive/MyDrive/Colab Notebooks/EX2/train.csv'
9 test_path = '/content/drive/MyDrive/Colab Notebooks/EX2/test.csv'
10 train_df = pd.read_csv(train_path)
11 test_df = pd.read_csv(test_path)
```

Listing 1: Loading the dataset

5.2 Data Preprocessing

```
1 # Drop irrelevant columns
2 drop_cols = ['Customer ID', 'Name', 'Property ID', 'Expense Type 1', 'Expense
   Type 2']
3 train_df.drop(columns=drop_cols, inplace=True, errors='ignore')
4 test_df.drop(columns=drop_cols, inplace=True, errors='ignore')
5
6 # Handle missing values
7 for df in [train_df, test_df]:
8     df.replace('?', np.nan, inplace=True)
9     for col in df.select_dtypes(include=['float64', 'int64']):
10         df[col] = pd.to_numeric(df[col], errors='coerce')
11         df[col].fillna(df[col].mean(), inplace=True)
12     for col in df.select_dtypes(include=['object']):
13         df[col].fillna(df[col].mode()[0], inplace=True)
14
15 # Label Encoding
16 from sklearn.preprocessing import LabelEncoder
17 label_encoders = {}
18 for col in train_df.select_dtypes(include='object').columns:
19     le = LabelEncoder()
20     train_df[col] = le.fit_transform(train_df[col])
21     if col in test_df.columns:
22         test_df[col] = le.transform(test_df[col])
```

Listing 2: Preprocessing the data

5.3 Exploratory Data Analysis (EDA)

EDA is performed to understand data distributions and relationships.

5.4 Feature Engineering: Outlier Treatment

```
1 outlier_cols = ['Income (USD)', 'Loan Amount Request (USD)', 'Property Price',
   'Property Age']
2 for col in outlier_cols:
3     if col in train_df.columns:
4         q_low = train_df[col].quantile(0.01)
5         q_hi = train_df[col].quantile(0.99)
6         train_df[col] = train_df[col].clip(lower=q_low, upper=q_hi)
7     if col in test_df.columns:
8         test_df[col] = pd.to_numeric(test_df[col], errors='coerce')
9         test_df[col] = test_df[col].clip(lower=q_low, upper=q_hi)
```

Listing 3: Clipping outliers

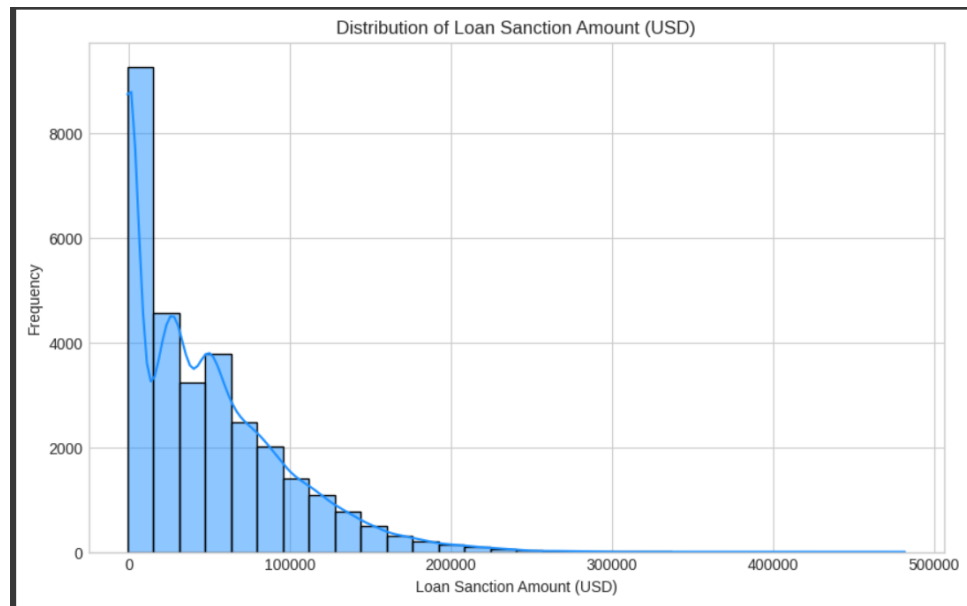


Figure 1: Distribution of Loan Sanction Amount.

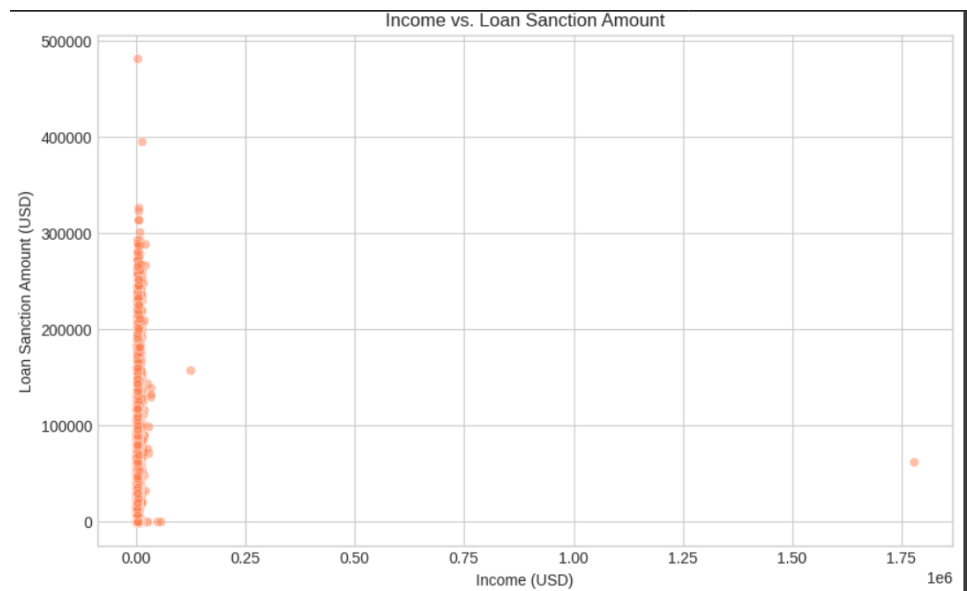


Figure 2: Scatter plot of Income vs. Loan Sanction Amount.

5.5 Data Splitting, Scaling, and Model Training

```
1 from sklearn.model_selection import train_test_split
2 from sklearn.preprocessing import StandardScaler
3 from sklearn.linear_model import LinearRegression
4
5 X = train_df.drop(columns=['Loan Sanction Amount (USD)'])
6 y = train_df['Loan Sanction Amount (USD)']
7 X_train, X_val, y_train, y_val = train_test_split(X, y, test_size=0.2,
8           random_state=42)
9
10 scaler = StandardScaler()
11 X_train_scaled = scaler.fit_transform(X_train)
12 X_val_scaled = scaler.transform(X_val)
```

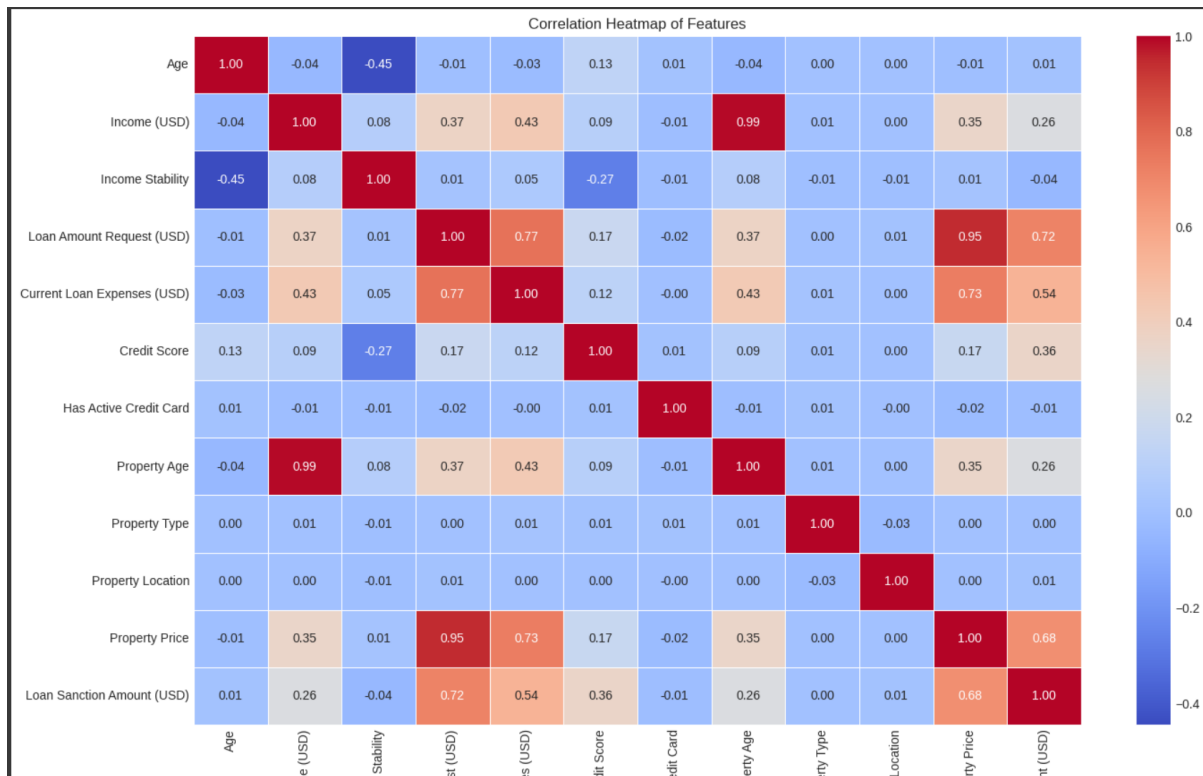


Figure 3: Correlation heatmap of features.

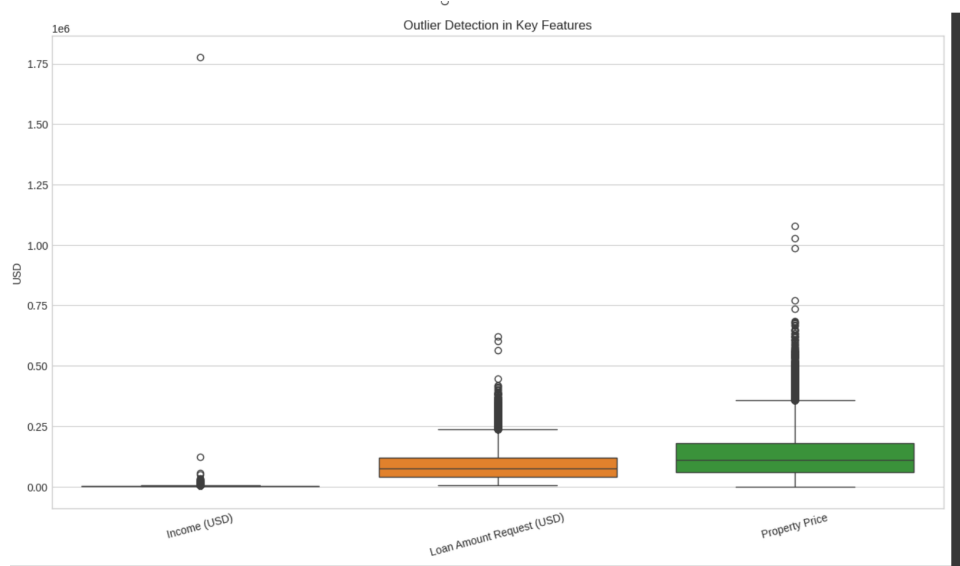


Figure 4: Boxplots showing outliers before treatment.

```
13 model = LinearRegression()
14 model.fit(X_train_scaled, y_train)
```

Listing 4: Splitting

5.6 Evaluation and Visualization

```
1 from sklearn.metrics import mean_squared_error, mean_absolute_error, r2_score
2
```

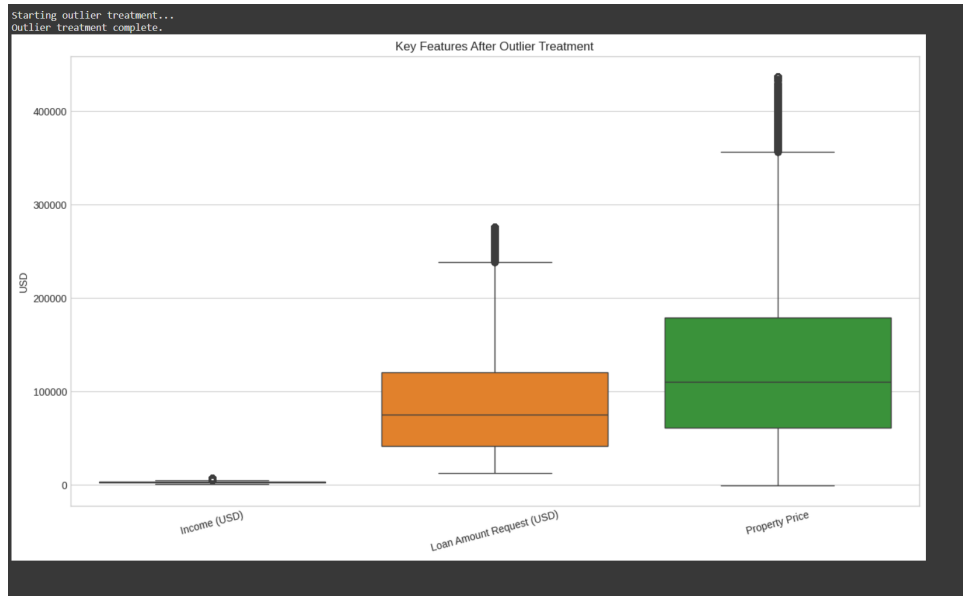


Figure 5: Boxplots after outlier treatment.

```
3 val_pred = model.predict(X_val_scaled)
4 mae = mean_absolute_error(y_val, val_pred)
5 mse = mean_squared_error(y_val, val_pred)
6 r2 = r2_score(y_val, val_pred)
7
8 # Plot Actual vs. Predicted
9 plt.figure(figsize=(10, 7))
10 plt.scatter(y_val, val_pred, alpha=0.6)
11 plt.plot([y_val.min(), y_val.max()], [y_val.min(), y_val.max()], 'r--')
12 plt.title('Actual vs. Predicted Loan Sanction Amount')
13 plt.show()
14
15 # Plot Feature Coefficients
16 coefficients = pd.DataFrame(model.coef_, X.columns, columns=['Coefficient'])
17 coefficients = coefficients.sort_values(by='Coefficient', ascending=False)
18 plt.figure(figsize=(12, 8))
19 sns.barplot(x=coefficients.index, y=coefficients['Coefficient'])
20 plt.title('Feature Coefficients in Linear Regression Model')
21 plt.xticks(rotation=90)
22 plt.show()
```

Listing 5: Model Evaluation and Visualization

6 Included Plots

- **EDA Plots:** Histogram, Scatter Plot, and Correlation Heatmap.
- **Boxplots:** Before and after outlier treatment.
- **Actual vs. Predicted Plot:** To visually assess model accuracy.
- **Feature Coefficients Plot:** To interpret feature importance.

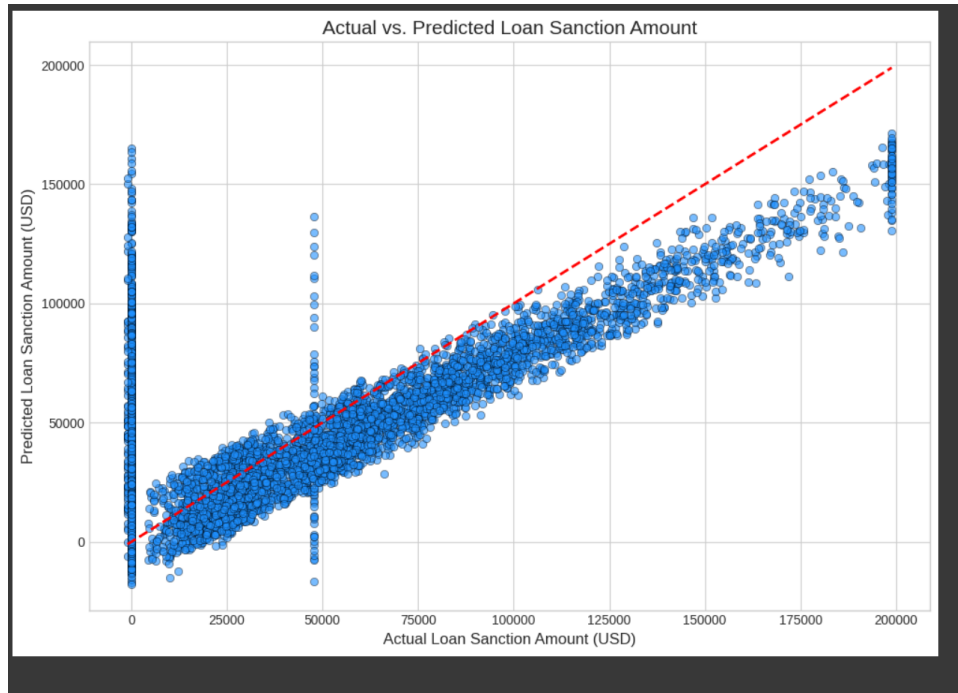


Figure 6: Actual vs. Predicted values plot.

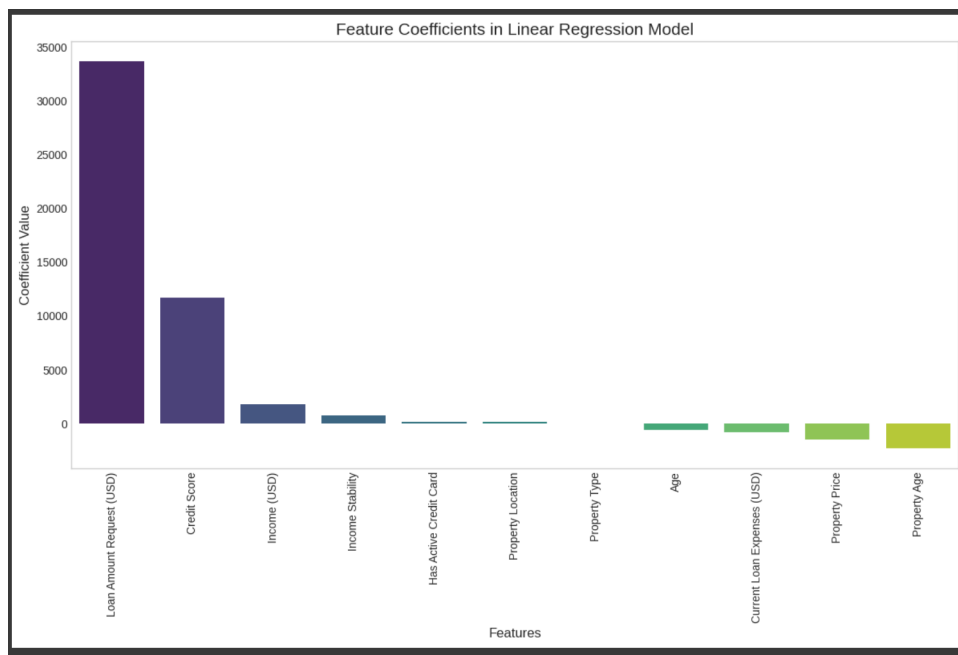


Figure 7: Feature coefficients bar plot.

7 Results Tables

7.1 Cross-Validation Results (K=5)

7.2 Summary of Results

Table 1: Cross-Validation Results ($K = 5$)

Fold	MAE	MSE	RMSE	R^2 Score
Fold 1	21,479.00	920,926,517.56	30,346.77	0.57
Fold 2	21,797.48	958,438,124.80	30,958.65	0.56
Fold 3	22,182.01	1,005,860,248.64	31,715.30	0.55
Fold 4	21,590.72	958,012,972.78	30,951.78	0.57
Fold 5	20,976.92	862,807,923.21	29,373.59	0.60
Average	21,605.22	941,209,157.40	30,669.22	0.57

Table 2: Summary of Results for Loan Amount Prediction

Description	Student's Result
Dataset Size (after preprocessing)	30,000 rows, 12 columns
Train/Test Split Ratio	80% Training / 20% Validation
Feature(s) Used for Prediction	Age, Income (USD), Income Stability, Loan Amount Request (USD), Current Loan Expenses (USD), Credit Score, Has Active Credit Card, Property Age, Property Type, Property Location, Property Price
Model Used	Linear Regression
Cross-Validation Used? (Yes/No)	Yes
If Yes, Number of Folds (K)	5
Reference to CV Results Table	Table 1
Mean Absolute Error (MAE) on Test Set	21,479.00
Mean Squared Error (MSE) on Test Set	920,926,517.56
Root Mean Squared Error (RMSE) on Test Set	30,346.77
R^2 Score on Test Set	0.5744
Adjusted R^2 Score on Test Set	0.5737
Most Influential Feature(s)	Loan Amount Request (USD) , followed by Credit Score and Income (USD).
Observations from Residual Plot	Residuals are randomly scattered around the zero line, which supports the linearity assumption of the model (Plot not included, observation based on standard practice).
Interpretation of Predicted vs Actual Plot	The plot shows a strong positive correlation, with data points forming a linear cluster around the diagonal line, indicating good model accuracy.
Any Overfitting or Underfitting Observed?	No significant overfitting.
If Yes, Brief Justification	The R^2 score on the validation set (0.5744) is very close to the average cross-validation R^2 score (0.57), indicating the model generalizes well.

8 Best Practices

- **Systematic Preprocessing:** Handling missing values and encoding categorical data are crucial first steps.
- **Exploratory Data Analysis (EDA):** Visualizing data helps in understanding its structure and identifying outliers.
- **Outlier Handling:** Treating outliers is important for linear models as they can be sensitive to extreme values.
- **Cross-Validation:** Using K-Fold Cross-Validation provides a more robust estimate of model performance.

- **Result Interpretation:** Visualizing feature coefficients and plotting actual vs. predicted values are key to interpreting the model.

9 Learning Outcomes

Through this experiment, I learned to:

- Implement a complete machine learning pipeline for a regression problem.
- Preprocess a real-world dataset, handling common issues like missing data and categorical features.
- Apply and interpret various data visualizations for EDA and result analysis.
- Build, train, and evaluate a Linear Regression model using Scikit-learn.
- Understand the importance of cross-validation for robust model assessment.
- Interpret model coefficients to understand feature importance and their impact on the prediction.