



Bank Loan Analysis – Basic Domain Knowledge Guide

Core Lending Concepts

- **Loan lifecycle:** application → approval → disbursement → repayment → closure/default
- **Loan types:** personal, home, auto, business loans
- **Loan status meanings:** fully paid, current, charged off, delinquent

Key Financial Metrics

Loan Disbursement (Loan Amount / Funded Amount)

- Loan disbursement refers to the **principal amount released to the borrower by the bank**. It represents the bank's total lending exposure and is used to measure the size and growth of the loan portfolio.

Loan Repayment (Total Payment / Amount Received)

- Loan repayment captures the **total amount collected from borrowers, including principal and interest**. This metric helps assess repayment behavior, cash inflows, and overall portfolio health.

Interest Rate (Annual Percentage Rate – APR)

- The interest rate represents the **cost of borrowing for customers and the earning rate for the bank**. Higher interest rates are typically associated with higher borrower risk and risk-based pricing.

Installment

- Installment is the **fixed periodic payment a borrower must make toward loan repayment**. It helps evaluate loan affordability and the likelihood of timely repayments.

Debt-to-Income (DTI)

- DTI measures a **borrower's total debt in relation to income**. A **higher DTI indicates repayment stress and increased credit risk**.

Portfolio Performance Metrics

Loan Applications Volume

- Loan application volume represents the number of customers applying for loans, indicating **overall demand for credit**. Analyzing trends **helps identify growth patterns, seasonality, and changes in customer interest**.

MTD / MoM Trends

- **MTD tracks performance within the current month**, while **MoM compares results against the previous month**. Together, they help quickly **spot performance changes, trends, and early warning signals**.

Good vs Bad Loans

- This classification groups loans based on **repayment behavior and loan status**. It is critical for **assessing portfolio quality, identifying risk concentration, and monitoring credit performance**.

Default / Charge-off Rate

- The default or **charge-off rate** measures the share of loans that **are not repaid and written off** by the bank. It serves as a key **indicator of credit risk exposure and potential financial loss**.

Borrower & Risk Indicators

Annual Income & Employment Length

- These metrics reflect a borrower's **income stability and repayment capacity**. Higher income levels and longer employment history generally indicate lower default risk and stronger credit profiles.

Home Ownership

- Home ownership acts as an indicator of **financial stability and long-term commitment**. Borrowers who own homes are often considered lower risk, which can influence loan approval and pricing.

Credit Grade / Sub-grade

- Credit grade summarizes a borrower's **creditworthiness** based on past credit behavior. It directly affects interest rates, approval decisions, and risk categorization.

Purpose of Loan

- The purpose of a loan explains how the borrowed funds will be used. **Different purposes carry varying risk levels**, as some uses are historically linked to higher default rates.

Segmentation & Analysis Dimensions

Geography (State / Region)

- Geographic segmentation helps **identify regional demand patterns** and risk concentrations. It enables banks to detect location-based trends and manage exposure across different regions.

Term Length

- Term length **defines the duration of the loan**, influencing repayment structure and overall risk exposure. Longer loan terms typically carry higher long-term default risk.

Verification Status

- Verification status indicates whether **borrower details are verified or unverified**. Verified information improves data reliability, reduces uncertainty, and supports more accurate risk assessment.

Summary:

Key Financial Metrics

- **Loan Amount / Funded Amount** – principal disbursed
- **Total Payment / Amount Received** – repayments collected
- **Interest Rate (APR)** – cost of borrowing
- **Installment** – periodic payment amount
- **Debt-to-Income (DTI)** – borrower risk indicator

Portfolio Performance Metrics

- **Loan Applications volume** – demand indicator
- **MTD / MoM trends** – performance tracking over time
- **Good vs Bad Loans** – portfolio quality assessment
- **Default / Charge-off rate** – credit risk exposure

Borrower & Risk Indicators

- **Annual Income & Employment Length** – repayment capacity
- **Home Ownership** – stability indicator
- **Credit Grade / Sub-grade** – borrower creditworthiness
- **Purpose of Loan** – risk varies by intent

Segmentation & Analysis Dimensions

- **Geography (State/Region)** – regional risk and demand
- **Term Length** – short vs long-term risk
- **Verification Status** – data reliability and risk impact