



# UNIVERSITY OF BIRMINGHAM

SCHOOL OF COMPUTER SCIENCE  
COLLEGE OF ENGINEERING AND PHYSICAL SCIENCES

MSc. PROJECT

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## Machine Learning & Deep Learning Approaches to Predict Credit Card Default

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Submitted in conformity with the requirements  
for the degree of MSc. Artificial Intelligence & Computer Science  
School of Computer Science  
University of Birmingham

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## **Abstract**

The material contained within this report has not previously been submitted for a degree at the University of Birmingham or any other university. The research reported within this report has been conducted by the author unless indicated otherwise.

**Keywords** Credit Card Default Prediction, Ensemble Learning

### **Declaration**

The material contained within this report has not previously been submitted for a degree at the University of Birmingham or any other university. The research reported within this report has been conducted by the author unless indicated otherwise.

**Signed** Sarathkumar Padinjare Marath Sankaranarayanan

“You have to learn the rules of the game.  
And then you have to play better than anyone else”

ALBERT EINSTEIN

# MSc. Project

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Sarathkumar Padinjare Marath Sankaranarayanan

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## Table of Abbreviations

<b>SVM</b>	Support Vector Machine
<b>ANN</b>	Artificial Neural Network
<b>GBDT</b>	Gradient Boosting Decision Tree
<b>GRU</b>	Gated Recurrent Unit
<b>LGBM</b>	Light Gradient Boosting Machine
<b>XGBoost</b>	Xtreme Gradient Boosting Machine
<b>GRU</b>	Gated Recurrent Unit
<b>CV</b>	Cross Validation
<b>SMOTE</b>	Synthetic Minority Oversampling Technique
<b>RAM</b>	Random Access Memory
<b>MSE</b>	Mean Squared Error

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## 1 Introduction

This section will introduce the user to definitions of terms relevant for understanding the problem, discuss the motivation behind the problem, the aim & approach taken to solve the problem, and the structure of this report.

### 1.1 Definitions

#### 1.1.1 Credit Card Statement Date

The credit card statement date is the date on which the statement/bill is generated every month. Any transaction conducted on the card post billing date will reflect in the next month's credit card statement.

#### 1.1.2 Delinquent Account

A credit card account is considered delinquent if the customer has failed to make the minimum monthly payment for 30 days from the original due date.

#### 1.1.3 Delinquency Rate

The percentage of credit card accounts within a financial institution's portfolio whose payments are delinquent.

$$DelinquencyRate = \left( \frac{NumberOfDelinquentCreditCardAccounts}{TotalNumberOfCreditCardAccount} \right) * 100 \quad (1)$$

#### 1.1.4 Credit Card Default

The customer is considered as defaulting customer in the event of nonpayment of the due amount in 120 days after the latest statement date.

### 1.2 Motivation

Delinquency rates & credit card default rates are directly proportional. According to the figure 1, the delinquency rates were at an all-time high just before the recession started in 2008; moreover, this was the same time when more & more customers began to default on credit card payments.

Predicting credit defaults is essential for managing risk in the consumer lending industry. Credit default prediction enables lenders to make the best possible lending decisions, improving customer satisfaction and fostering strong company economics.

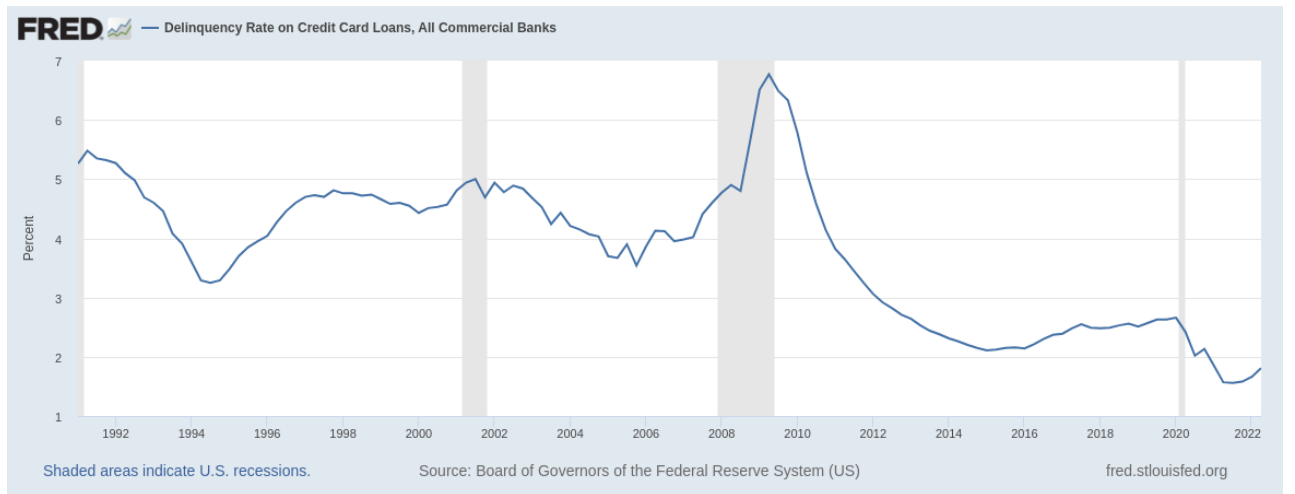


Figure 1: Delinquency rate on credit card loans for the period 1992-2022(Board of Governors of the Federal Reserve System (US) 2022).

Existing models can be used to manage risk. However, developing models that perform better than those in use is feasible.

### **1.3 Aim & Approach**

The objective of this project was to explore different machine learning algorithms & deep learning architectures on the American Express default prediction dataset(American Express 2022) to predict if a customer will default on the payment in the future. The project work started by developing a model using classic machine learning algorithm Support Vector Machine (SVM) followed by creating multiple models using Random Forest Classifier & Gradient Boosting Decision Tree (GBDT) algorithms. Artificial Neural Network (ANN), Gated Recurrent Unit (GRU) & Custom ensemble model created by model combining ANN, GRU and GBDT were created as part of exploring deep learning architectures. Finally created a lean model, using less features & optimized parameters using GBDT which provided comparable performances to the previously explored models.

### **1.4 Structure of Report**

The remainder of the report is structured as follows: in Section 2 background information on different machine learning & deep learning algorithms along with metrics explanation is provided. Then in Section 3 a literature review related to the credit card default prediction research is given. Section 4 & 5 provides detailed explanations on the dataset, tools & software used in the project, and methodology followed for creating the models. Model evaluation results and the comparison is given in Section 6. Finally Section 7 discusses the conclusion of the project.

## **2 Background Knowledge**

This section provides the reader with the required background information on the machine learning algorithms, deep learning architectures & metrics.

- 2.1 Support Vector Machine (SVM)**
- 2.2 Decision Tree**
- 2.3 Ensemble Models**
- 2.4 Gradient Boosting Decision Tree (GBDT)**
- 2.5 Xtreme Gradient Boosting Machine (XGBoost)**
- 2.6 Light Gradient Boosting Machine (LGBM)**
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### **3 Literature Review**

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#### **3.1 Summary**

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## 4 Materials

### 4.1 Primary Dataset

The primary dataset contains 190 aggregated profile features of 458913 American Express customers at each statement date for 13 months. Features are anonymized and normalized, and fall into the following general categories:

- $D_*$  = Delinquency variables
- $S_*$  = Spend variables
- $P_*$  = Payment variables
- $B_*$  = Balance variables
- $R_*$  = Risk variables

This dataset(American Express 2022) was released as part of the "American Express - Default Prediction" hosted in Kaggle by the American Express team.

### 4.2 Secondary Dataset

The secondary dataset was derived from primary dataset by applying the below mathematical aggregate operations to the numerical features.

- Minimum
- Maximum
- Mean
- Last Value
- Standard Deviation

Aggregate for the categorical features were taken by the applying below operations.

- Last Value
- Count
- Unique Value Count

The secondary dataset contains 920 features and 458913 records.

### 4.3 Tools & Software

The primary programming language used for the implementation of this project is Python version 3.7. Data analysis and manipulation is done using Pandas(1.3.5), seaborn(0.11.2) & Dask(2.12.0) packages. Scikit Learn(1.0.2) package is used for create, train & evaluate machine learning models. ANN & GRU models were created using Tensorflow (2.8.2).Google colab was used to train the model in cloud and Github was used as the version control & project management software.

## 5 Methodology

### 5.1 Introduction

This section will first provide a brief overview of the overall strategy of the experiments performed as part of this project followed by providing detailed explanation on the data preprocessing techniques used. Then in subsequent sections each experiment/model will be presented along with the model specific explanations & details.

### 5.2 Overview of Methodology Followed

Figure 2 represents a overview of methodology in general followed for conducting experiments. The dataset was first split into chunks and stored in different files in parquet format to optimize the memory usage. Then, dataset was preprocessed to remove invalid values and encode categorical text variables to numerical values. Followed by data pre-processing, the dataset was split into Training & Test set, this ensures that none of the entries in test set will have an influence in model training and model selection process. Then the dataset was enhanced using oversampling techniques to resolve the class imbalance issue; in addition, feature selection techniques were used to eliminate the features from the dataset which were less important and hence contribute very little to model.

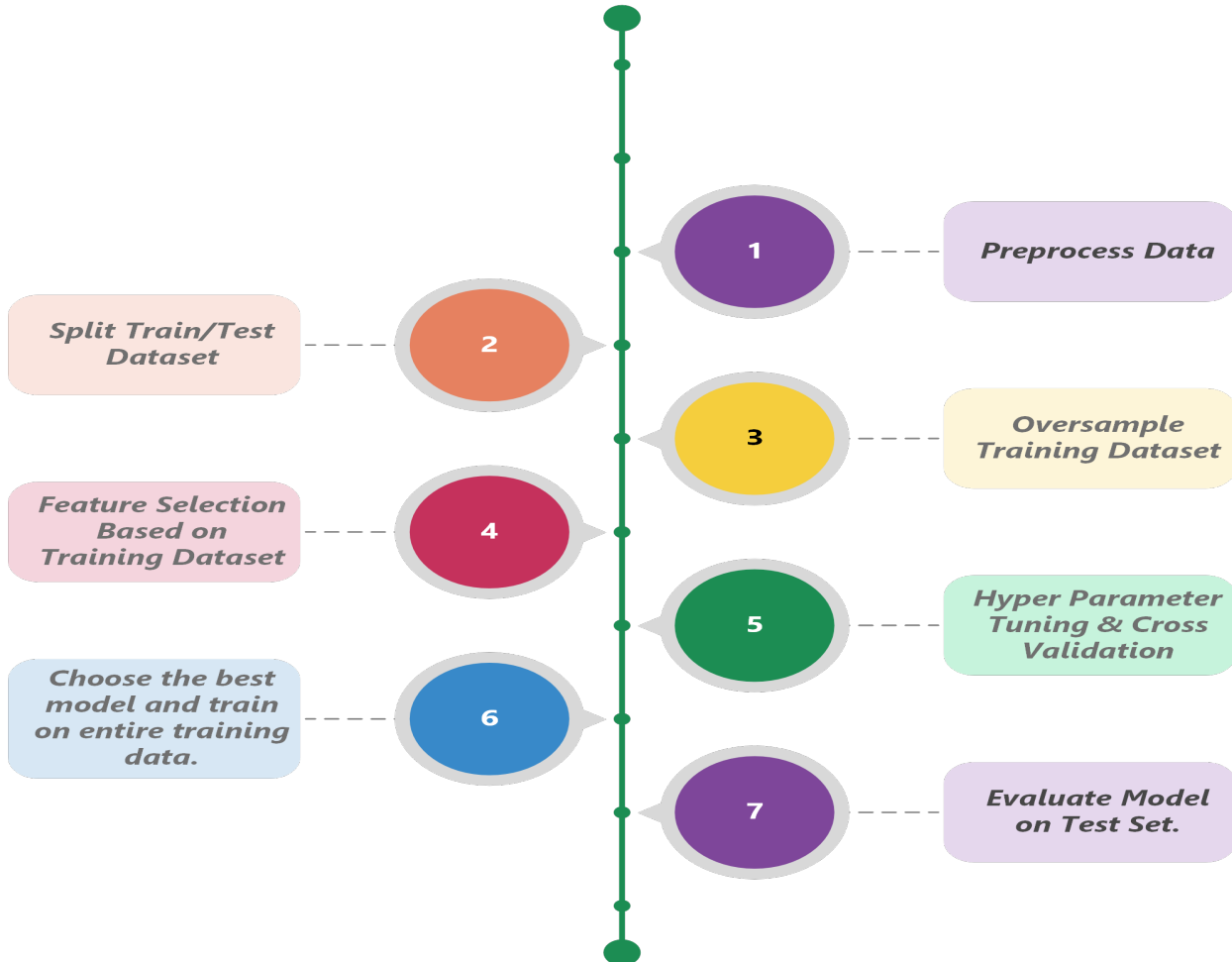


Figure 2: Methodology followed for the experiments

After the feature selection, the model was created and then passed through a Hyperparameter tuning pipeline which helps to find the best parameters for the model which would give highest cross validation score. Finally the entire training dataset was trained on the best model found using hyperparameter tuning and the model was evaluated using the test set set aside at the beginning of the experiment.

### 5.3 Data Preprocessing

This section discusses the common preprocessing techniques used in all experiments conducted as part of the project. The model specific data preprocessing techniques used will be discussed in respective sections describing the model.

#### 5.3.1 Default Values

NaN & NULL values in the dataset was replaced by Zero and if a column contains all values same, it was removed from the dataset. -1 was used as the default value for the categorical variables. The categorical variables were encoded using Ordinal Encoder before passing to the model training pipeline.

#### 5.3.2 Normalization

The primary dataset from American Express is already normalized and all the values lies between zero to ten, hence none of the data normalization techniques were used to preprocess the data.

#### 5.3.3 Handling Memory Issue

Google Colab provides 24 GB of Random Access Memory (RAM) in the virtual environment, though the Primary Dataset is 16 GB, the pandas library was unable to load the complete data into memory due to memory leakage issue in the framework. Dask library, which uses multiple Pandas dataframe under the hood, was used to overcome the memory. Dataframe API in Dask library splits the dataset into multiple chunks and loads each chunk on a need basis only ( Lazy Loading), this ensured that the complete 16 GB dataset could be loaded even at a low memory of 4GB.

Additionally, the primary dataset was loaded using Dask framework and split the dataset month wise, ie one file for each month. The month wise files were saved in parquet format which helped to reduce the total size of the dataset from 16GB to 7GB. Similarly the primary dataset was also split customer wise, ie 1-50000 customers data in one file, 50001-100000 customers data in second file etc. These files were later used to build the Secondary Dataset.

### 5.4 Model 1 - Support Vector Machine (SVM)

The SVM model was created with parameters Regularization Term = L2 Norm(Squared Error Loss), Alpha = 0.0001, Loss='hinge'(soft-margin), tolerance=0.001. The primary dataset was used to train the model and the model converged after 28 iterations. Early stopping was used to prevent overfitting of the model and 10% of the data from training set used as the validation set. Stochastic gradient descent was used to optimize the objective function, this ensured that even though the dataset contains millions of records, the training is able to proceed and finish in reasonable time. 20% of the Secondary Dataset was used as test set to evaluate the performance of the model.

### 5.5 Model 2 - Random Forest Classifier

The Random Forest Classifier model uses 100 Decision Trees trained in parallel on the primary dataset. Each decision tree uses a different subset of Primary Dataset with maximum number of records in a database set to 600,000. Gini impurity metric is used to measure the quality of the split while building decision tree. Finally the model predicts the target variable by taking mean of all the predictions from the 100 individual decision trees. 20% of the Secondary Dataset was used as test set to evaluate the performance of the model.

### 5.6 Model 3 - Gradient Boosting Decision Tree (GBDT)

GBDT model was created using 100 Decision Trees trained sequentially on the primary dataset. Friedman Mean Squared Error (MSE) is used to measure the quality of a split; additionally, model was set to use only 60% of the data for constructing each decision trees to avoid memory leakage issue. 10% of the training set was set for validation purpose; furthermore, the parameters were set to stop the training if the validation score does not improve to avoid overfitting. Loss function for the training was set to Deviance. 20% of the Secondary Dataset was used as test set to evaluate the performance of the model.

**5.7 Model 4 - Xtreme Gradient Boosting Machine (XGBoost)**

XGBoost model was created using training 100 base learners on the Secondary Dataset and each base learner is constructed using 80% of the training dataset. Instead of using complete features to construct the base learner, parameters were set to use only 60% of features, this helped to eliminate the memory leakage/overflow issues while training. Moreover, L2 regularization parameter was set to 0.9 to reduce the overfitting of the model. 20% of the Secondary Dataset was used as test set to evaluate the performance of the model.

**5.8 Model 5 - Light Gradient Boosting Machine (LGBM)**

LGBM model was trained on Secondary dataset and the 100 base learners were constructed using the entire features & training set. Tradition Gradient Boosting Decision Trees were used as the boosting type and learning rate was set to 0.1. 20% of the dataset were set aside as the test set for evaluating the model. Maximum depth is not set as to allow trees of any depth.

**5.9 Model 7 - Artificial Neural Network (ANN)****5.10 Model 8 - Gated Recurrent Unit (GRU)****5.11 Model 9 - Ensemble Stacking Model using ANN + GRU + GBDT****5.12 Model 10 - Lean LGBM Model****5.13 Summary**

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## **6 Results & Discussions**

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### **6.1 Summary**

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## **7 Conclusion & Summary**

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### **7.1 Summary**

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## References

American Express (2022), 'American Express Default Prediction Dataset', Available:  
<https://www.kaggle.com/competitions/amex-default-prediction/data>.

Board of Governors of the Federal Reserve System (US) (2022), 'Delinquency Rate on Credit Card Loans, All Commercial Banks [DRCCLACBS]', Available:  
<https://fred.stlouisfed.org/series/DRCCLACBS>. Data retrieved from FRED, Federal Reserve Bank of St. Louis;.

## **8 Appendix One: Code**

### **8.1 Directory Structure**

### **8.2 Running the Provided Code**