

Risk Scorecard

Fractal's risk scorecards helped an NBFC reduce delinquency levels by 76%

SUMMARY

- **Client**
A large housing finance company*
- **Challenge**
Client wanted to optimize the credit approval process and reduce the escalating delinquency levels
- **Solution**
Fractal's expertise in application scorecard development
- **Result**
Fractal deployed the application scorecard for the client which led to reduction of delinquency levels by 76%

* This case study is based on a Fractal client that has requested anonymity

■ The Business challenge

The housing finance company initially used a credit policy based on a judgmental approach to approve mortgage loans which lead to significantly high delinquency rates.

Fractal took the mandate of bringing down the delinquency rates to more tolerable levels and devised a statistical model to address the challenge.

The bad rate (90 DPD) for accounts sourced between September 2001 and August 2002 stood at a glaring 5.75% as on December 2003. The process followed for decision was judgment based on the then credit policy & credit officer had to personally interview each applicant and process each application.

Due to the above mentioned setup, the process involved a lot of subjectivity and high turn around times which was becoming a major hindrance to the growing competition from the other major players in the same space.

■ The Solution

Fractal took the above mandate and devised a statistical model to address all the above shortcomings.

The model developed was an Application Scorecard customized for the housing finance company. To build the model, past lending experience of the company was considered and based on their data certain key variables were identified and weightages were assigned.

The scoring solution helped assess the risk of the customer at an application stage and based on application form information each application was scored and assigned a rating. This rating was later used by credit officers for prompt, objective and informed decision making.

■ Result

The application scorecard was implemented with distinct score bands and differential pricing for each score band to cover for the associated risk.

Post implementation, the delinquency rates have gone down significantly - one year lagged delinquency went down by almost 76%. Forward roll rates too have gone down drastically, the current to X DPD roll was halved indicating tremendous improvement in acquiring better risk customers using the application scoring solution.

➤ About Fractal

Fractal is a leading provider of customer analytics to consumer banks, credit card issuers, CPG companies and telecom companies.

Fractal's analytical solutions have helped companies across the globe enhance profitability by powering their customer management efforts with scientific decision making.



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