INTRODUCTION: WHAT IS CREDIT SCORING?

Over the last half of the twentieth century, lending to consumers exploded. Consumer credit has had one of the highest growth rates in any sector of the business. Consumers use credit to obtain goods and services now and then pay for them later. Many credit applicants are, in fact, good credit risks, but some are not. The risk for financial institutions comes from not knowing how to distinguish the good credit applicants from the bad credit applicants. One widely adopted technique for solving this problem is called credit scoring.

Credit scoring is the set of decision models and their underlying techniques that aid lenders in the granting of consumer credit. These techniques decide who will get credit, how much credit they should get, and what operational strategies will enhance the profitability of