the borrowers to the lenders. Further, it helps to assess the risk in lending. Credit scoring is a dependable assessment of a person’s creditworthiness, since it is based on actual data.

A lender must make two types of decisions: first, whether to grant credit to a new applicant and, second, how to deal with existing applicants, including whether to increase their credit limits. In both cases, whatever the techniques used, the vital point is that there is a very large sample of previous customers with their application details and subsequent credit history available. All the techniques use the sample to identify the connection between the characteristics of the consumers (annual income, age, number of years in employment with their current employer, etc.) and how “good” or “bad” their subsequent history is.

Typical application areas in the consumer market include credit cards, auto loans, home mortgages, home equity loans, mail catalog orders, and a wide variety of personal loan products.

**CREDIT SCORING: BUSINESS OBJECTIVES**

The application of scoring models has nowadays come to cover a wide range of objectives. The original idea of estimating the risk of defaulting has been augmented by credit scoring models at other aspects of the credit risk management: at the pre-application stage (identification of potential applicants), at the application stage (identification of acceptable applicants), and at the performance stage (identification of possible behavior of current customers).

Scoring models with different objectives has been developed. They can be generalized into the following four categories:

1. **Marketing aspect:**
   
   *Purpose:* Identify creditworthy customers most likely to respond to promotional activity to reduce the cost of customer acquisition and minimize customer dissatisfaction. Predict the likelihood of losing valuable customers and enable organizations to formulate effective customer retention strategy.
   
   *Examples:* Response scoring: The scoring models that estimate how likely a consumer would respond to a direct mailing of a new product. Retention/attrition scoring: The scoring models that predict how likely a consumer would keep using the product after the introductory offer period is over or change to another lender.

2. **Application aspect:**
   
   *Purpose:* Decide whether or not to extend credit, and how much credit to extend. Forecast the future behavior of a new credit applicant by predicting loan-default or poor-repayment behaviors at the time the credit is granted.
   
   *Example:* Applicant scoring: The scoring models that estimate how likely a new applicant of credit will become default.