

Credit Score Model

Objective

The Credit Score Model was developed and implemented for a Micro Finance Institution for evaluating Safal loan proposals.

The work involved Process and document design for loan management process for providing **Working Capital Loan**, design of Credit Risk Model and technical support for designing of modules for the Loan Management System.

The Credit Score Model is a tool used to evaluate loan proposals using objective and data driven approach.

Methodology

- Preliminary study of operations
- Gap analysis and risk assessment
- Interactions with the Self Help Groups to understand the peculiarities of lending to the urban poor
- Process and document design
- Process testing
- Development of modules for the loan management system and testing

Solution or Output

The CS model facilitates lending decisions.

It works on the concept of criteria, sub-criteria and formula matrix based on predetermined weights and sub-weights.

The data collected in the application form and during the assessment are run through criteria-sub-criteria-formula matrices to arrive at a score. The final “**credit score**” is computed by multiplying the individual formula scores and the respective sub weights.

Benefits of the Credit Score Model

- ❖ It enables lending decisions
- ❖ It is simple and easy to use
- ❖ It can be customized to suit different products
- ❖ It is used to evaluate lending portfolio
- ❖ It provides information on credit exposure
- ❖ It helps in identifying trends

- ❖ It is flexible; the criteria and sub-criteria can be changed as per requirements and the weights change consequently
- ❖ The model facilitates analytical exercises –
 - ✓ Sensitivity Analysis
 - ✓ Scenario Building
 - ✓ Forecasting

The CS Model can be used by Micro Finance Institutions, Banks and Other Lending Agencies.