

LOAN PREDICTION ANALYSIS USING MACHINE LEARNING ALGORITHM

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ABSTRACT

With the advancement in technology, there are so many enhancements in the banking sector also. The number of applications is increasing every day for loan approval. There are some bank policies that they have to consider while selecting an applicant for loan approval. Based on some parameters, the bank has to decide which one is best for approval. It is tough and risky to check out manually every person and then recommended for loan approval. In this work, we use a machine learning technique that will predict the person who is reliable for a loan, based on the previous record of the person whom the loan amount is accredited before. This work's primary objective is to predict whether the loan approval to a specific individual is safe or not.

CHAPTER 1

INTRODUCTION

As the data are increasing daily due to digitization in the banking sector, people want to apply for loans through the internet. Artificial intelligence (AI), as a typical method for information investigation, has gotten more consideration increasingly. Individuals of various businesses are utilizing AI calculations to take care of the issues dependent on their industry information. Banks are facing a significant problem in the approval of the loan. Daily there are so many applications that are challenging to manage by the bank employees, and also the chances of some mistakes are high. Most banks earn profit from the loan, but it is risky to choose deserving customers from the number of applications. One mistake can make a massive loss to a bank. Loan distribution is the primary business of almost every bank. This project aims to provide a loan to a deserving applicant out of all applicants. An efficient and non-biased system that reduces the bank's time employs checking every applicant on a priority basis. The bank authorities complete all other customer's other formalities on time, which positively impacts the customers. The best part is that it is efficient for both banks and applicants. This system allows jumping on particular applications that deserve to be approved on a priority basis. There are some features for the prediction like- 'Gender', 'Married', 'Dependents', 'Education', 'Self_ Employed', 'ApplicantIncome',

‘CoapplicantIncome’, ‘LoanAmount’, ‘Loan_Amount_Term’, ‘Credit_History’, ‘Property_Area’, ‘Loan_Status’.

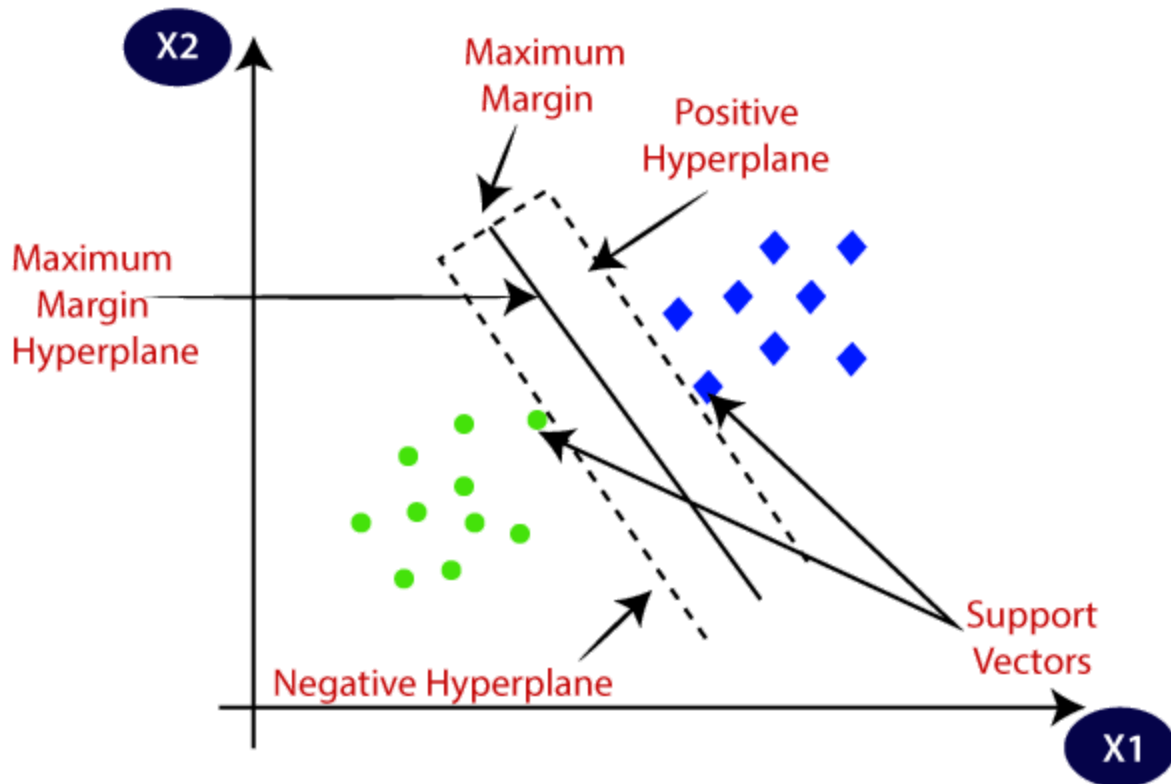
1.2 PROPOSED ALGORITHM

Support Vector Machine (SVM)

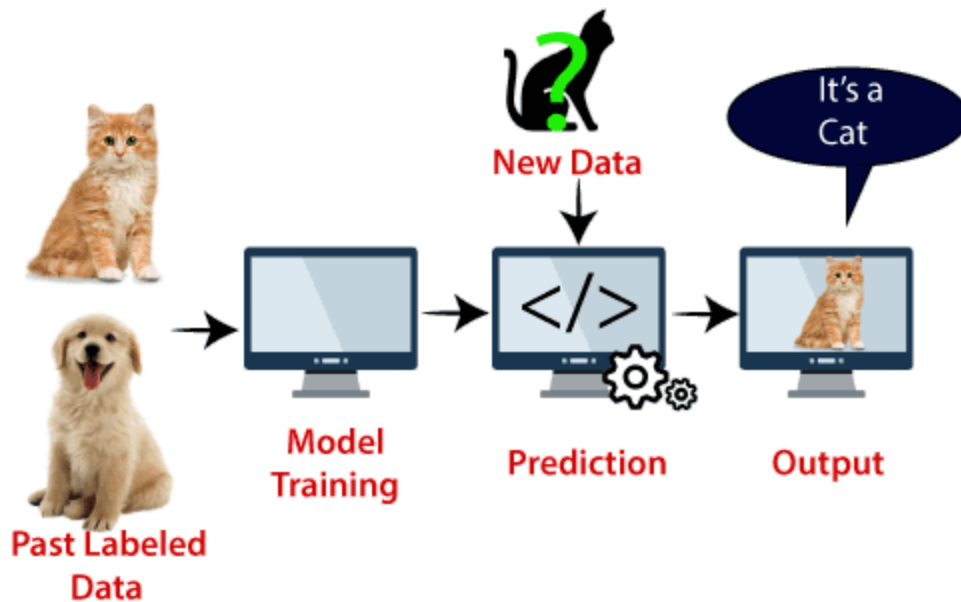
Support Vector Machine or SVM is one of the most popular Supervised Learning algorithms, which is used for Classification as well as Regression problems. However, primarily, it is used for Classification problems in Machine Learning.

The goal of the SVM algorithm is to create the best line or decision boundary that can segregate n-dimensional space into classes so that we can easily put the new data point in the correct category in the future. This best decision boundary is called a hyperplane.

SVM chooses the extreme points/vectors that help in creating the hyperplane. These extreme cases are called as support vectors, and hence algorithm is termed as Support Vector Machine. Consider the below diagram in which there are two different categories that are classified using a decision boundary or hyperplane:



SVM can be understood with the example that we have used in the KNN classifier. Suppose we see a strange cat that also has some features of dogs, so if we want a model that can accurately identify whether it is a cat or dog, so such a model can be created by using the SVM algorithm. We will first train our model with lots of images of cats and dogs so that it can learn about different features of cats and dogs, and then we test it with this strange creature. So as support vector creates a decision boundary between these two data (cat and dog) and choose extreme cases (support vectors), it will see the extreme case of cat and dog.



Types of SVM

SVM can be of two types:

Linear SVM: Linear SVM is used for linearly separable data, which means if a dataset can be classified into two classes by using a single straight line, then such data is termed as linearly separable data, and classifier is used called as Linear SVM classifier.

Non-linear SVM: Non-Linear SVM is used for non-linearly separated data, which means if a dataset cannot be classified by using a straight line, then such data is termed as non-linear data and classifier used is called as Non-linear SVM classifier.

Hyperplane and Support Vectors in the SVM algorithm:

Hyperplane: There can be multiple lines/decision boundaries to segregate the classes in n-dimensional space, but we need to find out the best decision boundary that helps to classify the data points. This best boundary is known as the hyperplane of SVM.

The dimensions of the hyperplane depend on the features present in the dataset, which means if there are 2 features (as shown in image), then hyperplane will be a straight line. And if there are 3 features, then hyperplane will be a 2-dimension plane.

We always create a hyperplane that has a maximum margin, which means the maximum distance between the data points.

Support Vectors:

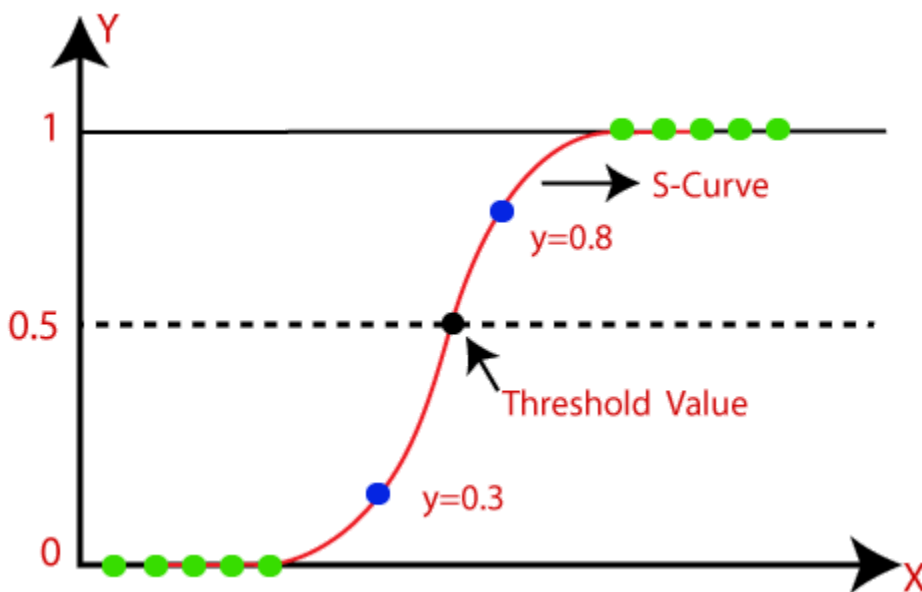
The data points or vectors that are the closest to the hyperplane and which affect the position of the hyperplane are termed as Support Vector. Since these vectors support the hyperplane, hence called a Support vector.

LOGISTIC REGRESSION IN MACHINE LEARNING

- o Logistic regression is one of the most popular Machine Learning algorithms, which comes under the Supervised Learning technique. It is used for predicting the categorical dependent variable using a given set of independent variables.
- o Logistic regression predicts the output of a categorical dependent variable. Therefore the outcome must be a categorical or discrete value. It can be either Yes or No, 0 or 1, true or False, etc. but instead of giving the exact value as 0 and 1, **it gives the probabilistic values which lie between 0 and 1.**
- o Logistic Regression is much similar to the Linear Regression except that how they are used. Linear Regression is used for solving Regression

problems, whereas **Logistic regression** is used for solving the **classification problems**.

- o In Logistic regression, instead of fitting a regression line, we fit an "S" shaped logistic function, which predicts two maximum values (0 or 1).
- o The curve from the logistic function indicates the likelihood of something such as whether the cells are cancerous or not, a mouse is obese or not based on its weight, etc.
- o Logistic Regression is a significant machine learning algorithm because it has the ability to provide probabilities and classify new data using continuous and discrete datasets.
- o Logistic Regression can be used to classify the observations using different types of data and can easily determine the most effective variables used for the classification. The below image is showing the logistic function:



Note: Logistic regression uses the concept of predictive modeling as regression; therefore, it is called logistic regression, but is used to classify samples; Therefore, it falls under the classification algorithm.

Logistic Function (Sigmoid Function):

- o The sigmoid function is a mathematical function used to map the predicted values to probabilities.
- o It maps any real value into another value within a range of 0 and 1.
- o The value of the logistic regression must be between 0 and 1, which cannot go beyond this limit, so it forms a curve like the "S" form. The S-form curve is called the Sigmoid function or the logistic function.
- o In logistic regression, we use the concept of the threshold value, which defines the probability of either 0 or 1. Such as values above the threshold value tends to 1, and a value below the threshold values tends to 0.

Assumptions for Logistic Regression:

- o The dependent variable must be categorical in nature.
- o The independent variable should not have multi-collinearity.

Logistic Regression Equation:

The Logistic regression equation can be obtained from the Linear Regression equation. The mathematical steps to get Logistic Regression equations are given below:

- o We know the equation of the straight line can be written as:

$$y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \dots + b_nx_n$$

- o In Logistic Regression y can be between 0 and 1 only, so for this let's divide the above equation by (1-y):

$$\frac{y}{1-y}; 0 \text{ for } y=0, \text{ and infinity for } y=1$$

- o But we need range between -[infinity] to +[infinity], then take logarithm of the equation it will become:

$$\log \left[\frac{y}{1-y} \right] = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \dots + b_nx_n$$

The above equation is the final equation for Logistic Regression.

Type of Logistic Regression:

On the basis of the categories, Logistic Regression can be classified into three types:

- o **Binomial:** In binomial Logistic regression, there can be only two possible types of the dependent variables, such as 0 or 1, Pass or Fail, etc.
- o **Multinomial:** In multinomial Logistic regression, there can be 3 or more possible unordered types of the dependent variable, such as "cat", "dogs", or "sheep"
- o **Ordinal:** In ordinal Logistic regression, there can be 3 or more possible ordered types of dependent variables, such as "low", "Medium", or "High".

RANDOM FOREST ALGORITHM

RANDOM FOREST ALGORITHM

Random forest algorithm can use both for classification and the regression kind of problems. In this you are going to learn, how the **random forest algorithm** works in machine learning for the classification task.

Random Forest is a popular machine learning algorithm that belongs to the supervised learning technique. It can be used for both Classification and Regression problems in ML. It is based on the concept of **ensemble learning**, which is a process of combining multiple classifiers to solve a complex problem and to improve the performance of the model.

A random forest algorithm consists of many decision trees. The ‘forest’ generated by the random forest algorithm is trained through bagging or bootstrap aggregating. Bagging is an ensemble meta-algorithm that improves the accuracy of machine learning algorithms.

As the name suggests, "Random Forest is a classifier that contains a number of decision trees on various subsets of the given dataset and takes the average to improve the predictive accuracy of that dataset." Instead of relying on one decision tree, the random forest takes the prediction from each tree and based on the majority votes of predictions, and it predicts the final output.

The below diagram explains the working of the Random Forest algorithm:

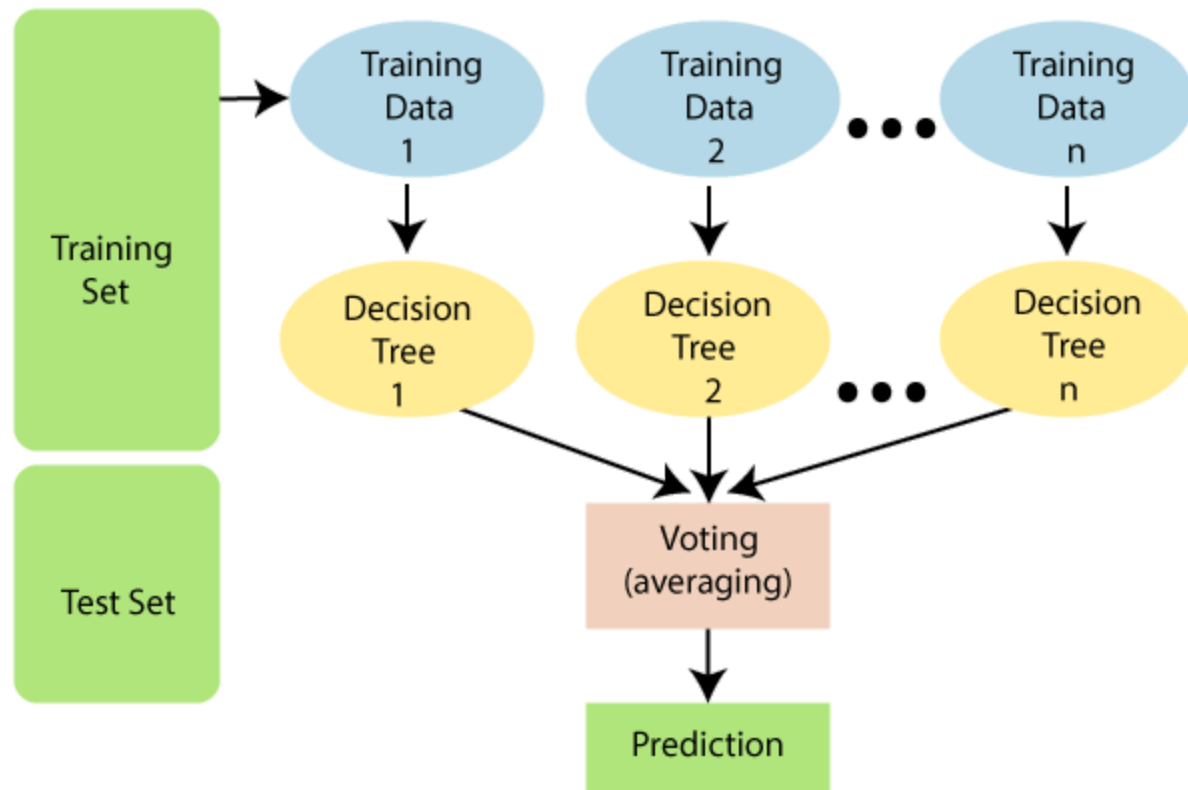


Fig 2: Explaining the working algorithm of the Random Forest algorithm

Below are some points that explain why we should use the Random Forest algorithm:

- o It takes less training time as compared to other algorithms.
- o It predicts output with high accuracy, even for the large dataset it runs efficiently.
- o It can also maintain accuracy when a large proportion of data is missing.

Features of a Random Forest Algorithm

- It's more accurate than the decision tree algorithm.

- It provides an effective way of handling missing data.
- It can produce a reasonable prediction without hyper-parameter tuning.
- It solves the issue of overfitting in decision trees.
- In every random forest tree, a subset of features is selected randomly at the node's splitting point.

Classification in random forests

Classification in random forests employs an ensemble methodology to attain the outcome. The training data is fed to train various decision trees. This dataset consists of observations and features that will be selected randomly during the splitting of nodes.

A rain forest system relies on various decision trees. Every decision tree consists of decision nodes, leaf nodes, and a root node. The leaf node of each tree is the final output produced by that specific decision tree. The selection of the final output follows the majority-voting system. In this case, the output chosen by the majority of the decision trees becomes the final output of the rain forest system. The diagram below shows a simple random forest classifier.

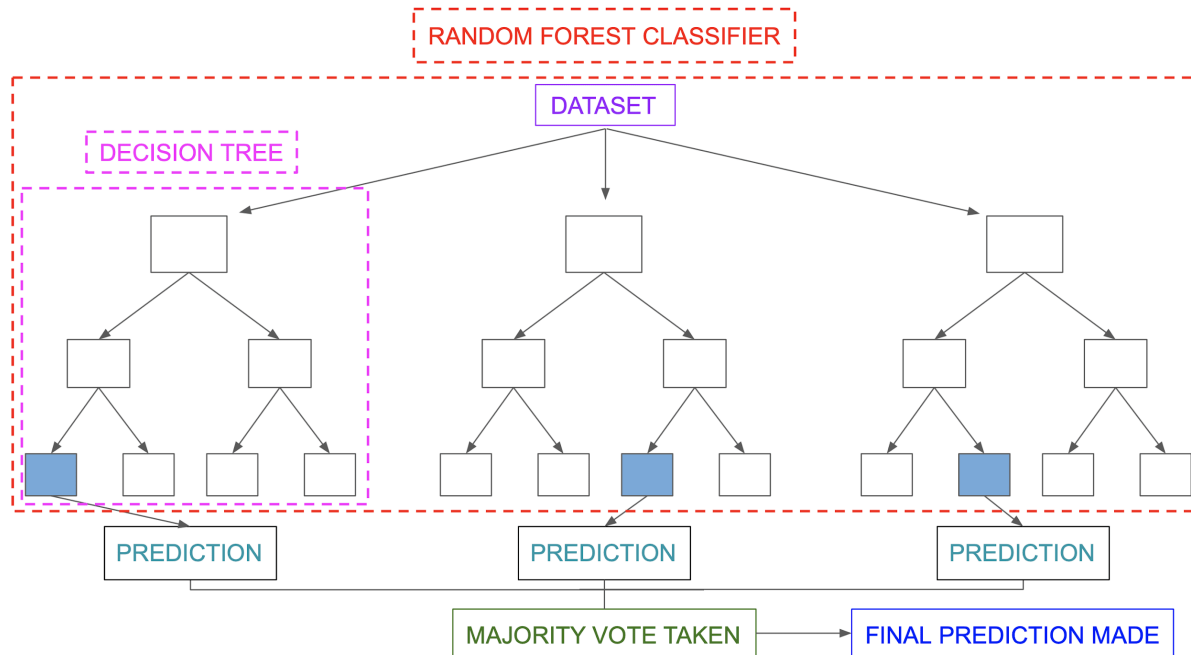


Fig 3: Explaining the Random Forest Classifier

Random Forest Steps

1. Randomly select “k” features from total “m” features.
 1. Where $k \ll m$
2. Among the “k” features, calculate the node “d” using the best split point.
3. Split the node into daughter nodes using the best split.
4. Repeat 1 to 3 steps until “l” number of nodes has been reached.
5. Build forest by repeating steps 1 to 4 for “n” number times to create “n” number of trees.

The beginning of random forest algorithm starts with randomly selecting “k” features out of total “m” features. In the image, you can observe that we are randomly taking features and observations.

The working of the algorithm can be better understood by the below example:

Example: Suppose there is a dataset that contains multiple fruit images. So, this dataset is given to the Random forest classifier. The dataset is divided into subsets and given to each decision tree. During the training phase, each decision tree produces a prediction result, and when a new data point occurs, then based on the majority of results, the Random Forest classifier predicts the final decision. Consider the below image:

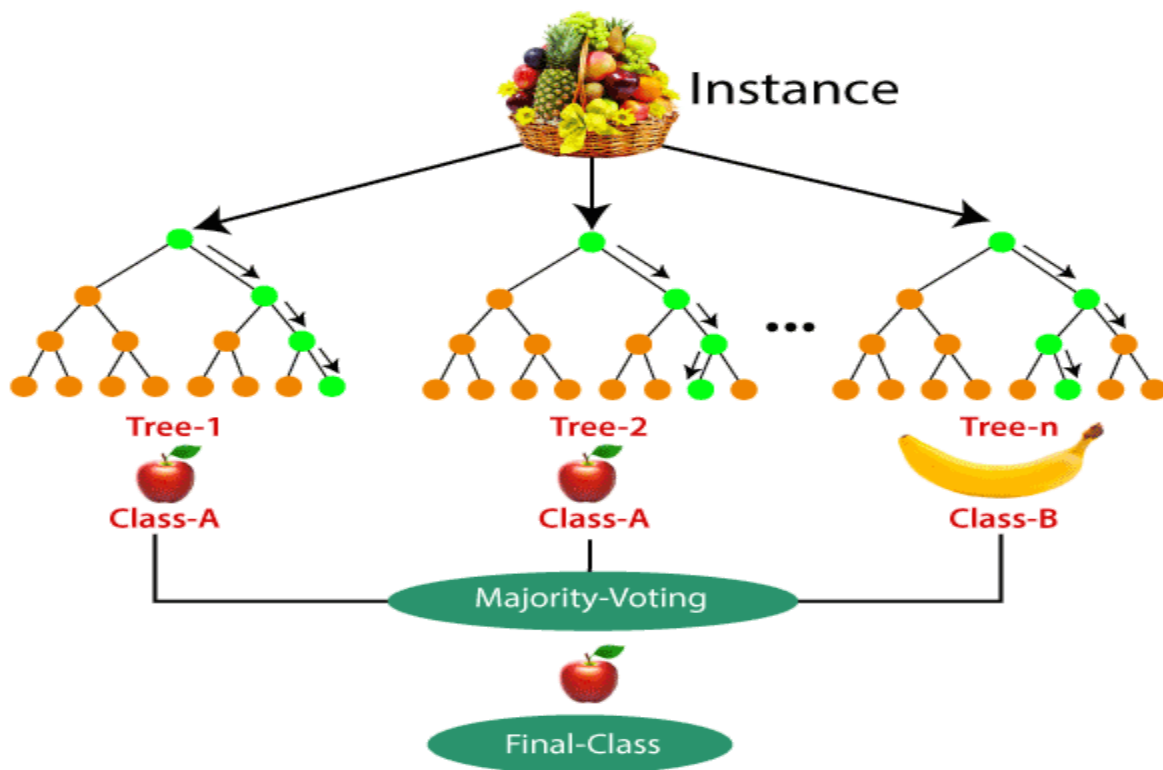


Fig 4: Explaining the Random Forest Classifier algorithm with example

APPLICATIONS OF RANDOM FOREST

There are mainly four sectors where Random forest mostly used:

1. **Banking:** Banking sector mostly uses this algorithm for the identification of loan risk.
2. **Medicine:** With the help of this algorithm, disease trends and risks of the disease can be identified.
3. **Land Use:** We can identify the areas of similar land use by this algorithm.
4. **Marketing:** Marketing trends can be identified using this algorithm.

Advantages of Random Forest

Random Forest is capable of performing both Classification and Regression tasks.

- It is capable of handling large datasets with high dimensionality.
- It enhances the accuracy of the model and prevents the overfitting issue.

Disadvantages of Random Forest

- Although random forest can be used for both classification and regression tasks, it is not more suitable for Regression tasks.

CHAPTER 2

LITERATURE SURVEY

Literature survey is the most important step in software development process. Before developing the tool it is necessary to determine the time factor, economy and company strength. Once these things are satisfied, then the next step is to determine which operating system and language can be used for developing the tool. Once the programmers start building the tool the programmers need lot of external support. This support can be obtained from senior programmers, from book or from websites. Before building the system the above consideration are taken into account for developing the proposed system. The major part of the project development sector considers and fully survey all the required needs for developing the project. For every project Literature survey is the most important sector in software development process. Before developing the tools and the associated designing it is necessary to determine and survey the time factor, resource requirement, man power, economy, and company strength. Once these things are satisfied and fully surveyed, then the next step is to determine about the software specifications in the respective system such as what type of operating system the project would require, and what are all the necessary software are needed to proceed with the next step such as developing the tools, and the associated operations.

Loan Approval Prediction based on Machine Learning Approach

The main objective of this paper is to predict whether assigning the loan to particular person will be safe or not. This paper is divided into four sections (i)Data

Collection (ii) Comparison of machine learning models on collected data (iii) Training of system on most promising model (iv) Testing.

Exploring the Machine Learning Algorithm for Prediction the Loan Sanctioning Process

Extending credits to corporates and individuals for the smooth functioning of growing economies like India is inevitable. As increasing number of customers apply for loans in the banks and non- banking financial companies (NBFC), it is really challenging for banks and NBFCs with limited capital to devise a standard resolution and safe procedure to lend money to its borrowers for their financial needs. In addition, in recent times NBFC inventories have suffered a significant downfall in terms of the stock price. It has contributed to a contagion that has also spread to other financial stocks, adversely affecting the benchmark in recent times. In this paper, an attempt is made to condense the risk involved in selecting the suitable person who could repay the loan on time thereby keeping the bank's nonperforming assets (NPA) on the hold. This is achieved by feeding the past records of the customer who acquired loans from the bank into a trained machine learning model which could yield an accurate result. The prime focus of the paper is to determine whether or not it will be safe to allocate the loan to a particular person. This paper has the following sections (i) Collection of Data, (ii) Data Cleaning and (iii) Performance Evaluation. Experimental tests found that the Naïve Bayes model has better performance Evaluation. Experimental tests found that the Naïve Bayes model has better performance than other models in terms of loan forecasting.

Loan Prediction using machine learning model

whether or not it will be safe to allocate the loan to a particular person. This paper has the following sections (i) Collection of Data, (ii) Data Cleaning and (iii) Performance Evaluation. Experimental tests found that the Naïve Bayes model has better performance than other models in terms of loan forecasting. With the enhancement in the banking sector lots of people are applying for bank loans but the bank has its limited assets which it has to grant to limited people only, so finding out to whom the loan can be granted which will be a safer option for the bank is a typical process. So in this project we try to reduce this risk factor behind selecting the safe person so as to save lots of bank efforts and assets. This is done by mining the Big Data of the previous records of the people to whom the loan was granted before and on the basis of these records/experiences the machine was trained using the machine learning model which give the most accurate result. The main objective of this project is to predict whether assigning the loan to particular person will be safe or not. This paper is divided into four sections (i) Data Collection (ii) Comparison of machine learning models on collected data (iii) Training of system on most promising model (iv) Testing. In this paper we are predict the loan data by using some machine learning algorithms they are classification, logic regression, Decision Tree and gradient boosting.

Loan Prediction using Decision Tree and Random Forest

In India the number of people or organization applying for loan gets increased every year. The bank have to put in a lot of work to analyse or predict whether the customer can pay back the loan amount or not (defaulter or non-defaulter) in the given time. The aim of this paper is to find the nature or background or credibility

of client that is applying for the loan. We use exploratory data analysis technique to deal with problem of approving or rejecting the loan request or in short loan prediction. The main focus of this paper is to determine whether the loan given to a particular person or an organization shall be approved or not.

Prediction of Loan Risk using NB and Support Vector Machine

In recent years, banks and creditors face lots of challenges associated with the bank loan. In addition, banking transactions are growing rapidly and large data sets that represent customer behaviour and risks around debt burdens have increased. So, it became mandatory to know the risks related to bank loans. Each consumer knows what they want and what kind of business they would like to choose. Customer can simply find another bank if administrators are not ready to pay attention. Many data analysis technique exists that focus on loan risk. These techniques are oriented toward extraction of quantity and statistical data properties. They facilitate useful data explanations and help to gain better insights in the process behind data. While there can be traditional data analysis techniques lead to intuition knowledge, it is still made by human researchers. Banks and many investment companies are pioneers using data mining. The proposed work in data mining focused on using data from banking sector to predict the status of loans. Two classification algorithms Naïve Bayes and Support Vector Machine are discussed here. The results have been proven that the speed and accuracy has been improved when combined these two techniques.

CHAPTER 3

SYSTEM REQUIREMENTS:

HARDWARE REQUIREMENTS:

- System : Pentium Dual Core.
- Hard Disk : 120 GB.
- Monitor : 15” LED
- Input Devices : Keyboard, Mouse
- Ram : 4 GB.

SOFTWARE REQUIREMENTS:

- Operating system: Windows 7/10.
- Coding Language :Python

SOFTWARE ENVIRONMENT

Python:

Python is a high-level, interpreted, interactive and object-oriented scripting language. Python is designed to be highly readable. It uses English keywords frequently where as other languages use punctuation, and it has fewer syntactical constructions than other languages.

- **Python is Interpreted** – Python is processed at runtime by the interpreter. You do not need to compile your program before executing it. This is similar to PERL and PHP.
- **Python is Interactive** – You can actually sit at a Python prompt and interact with the interpreter directly to write your programs.
- **Python is Object-Oriented** – Python supports Object-Oriented style or technique of programming that encapsulates code within objects.
- **Python is a Beginner's Language** – Python is a great language for the beginner-level programmers and supports the development of a wide range of applications from simple text processing to WWW browsers to games.

History of Python

Python was developed by Guido van Rossum in the late eighties and early nineties at the National Research Institute for Mathematics and Computer Science in the Netherlands.

Python is derived from many other languages, including ABC, Modula-3, C, C++, Algol-68, SmallTalk, and Unix shell and other scripting languages.

Python is copyrighted. Like Perl, Python source code is now available under the GNU General Public License (GPL).

Python is now maintained by a core development team at the institute, although Guido van Rossum still holds a vital role in directing its progress.

Python Features

Python's features include –

- **Easy-to-learn** – Python has few keywords, simple structure, and a clearly defined syntax. This allows the student to pick up the language quickly.
- **Easy-to-read** – Python code is more clearly defined and visible to the eyes.
- **Easy-to-maintain** – Python's source code is fairly easy-to-maintain.
- **A broad standard library** – Python's bulk of the library is very portable and cross-platform compatible on UNIX, Windows, and Macintosh.
- **Interactive Mode** – Python has support for an interactive mode which allows interactive testing and debugging of snippets of code.
- **Portable** – Python can run on a wide variety of hardware platforms and has the same interface on all platforms.
- **Extendable** – You can add low-level modules to the Python interpreter. These modules enable programmers to add to or customize their tools to be more efficient.
- **Databases** – Python provides interfaces to all major commercial databases.

- **GUI Programming** – Python supports GUI applications that can be created and ported to many system calls, libraries and windows systems, such as Windows MFC, Macintosh, and the X Window system of Unix.
- **Scalable** – Python provides a better structure and support for large programs than shell scripting.

Apart from the above-mentioned features, Python has a big list of good features, few are listed below –

- It supports functional and structured programming methods as well as OOP.
- It can be used as a scripting language or can be compiled to byte-code for building large applications.
- It provides very high-level dynamic data types and supports dynamic type checking.
- It supports automatic garbage collection.
- It can be easily integrated with C, C++, COM, ActiveX, CORBA, and Java.

Python is available on a wide variety of platforms including Linux and Mac OS X. Let's understand how to set up our Python environment.

Getting Python

The most up-to-date and current source code, binaries, documentation, news, etc., is available on the official website of Python <https://www.python.org>.

Windows Installation

Here are the steps to install Python on Windows machine.

- Open a Web browser and go to <https://www.python.org/downloads/>.

- Follow the link for the Windows installer python-XYZ.msifile where XYZ is the version you need to install.
- To use this installer python-XYZ.msi, the Windows system must support Microsoft Installer 2.0. Save the installer file to your local machine and then run it to find out if your machine supports MSI.
- Run the downloaded file. This brings up the Python install wizard, which is really easy to use. Just accept the default settings, wait until the install is finished, and you are done.

The Python language has many similarities to Perl, C, and Java. However, there are some definite differences between the languages.

First Python Program

Let us execute programs in different modes of programming.

Interactive Mode Programming

Invoking the interpreter without passing a script file as a parameter brings up the following prompt –

```
$ python
Python2.4.3(#1,Nov112010,13:34:43)
[GCC 4.1.220080704(RedHat4.1.2-48)] on linux2
Type "help", "copyright", "credits" or "license" for more information.
>>>
```

Type the following text at the Python prompt and press the Enter –

```
>>>print"Hello, Python!"
```

If you are running new version of Python, then you would need to use print statement with parenthesis as in **print ("Hello, Python!")**; However in Python version 2.4.3, this produces the following result –

```
Hello, Python!
```

Script Mode Programming

Invoking the interpreter with a script parameter begins execution of the script and continues until the script is finished. When the script is finished, the interpreter is no longer active.

Let us write a simple Python program in a script. Python files have extension **.py**. Type the following source code in a test.py file –

```
print"Hello, Python!"
```

We assume that you have Python interpreter set in PATH variable. Now, try to run this program as follows –

```
$ python test.py
```

This produces the following result –

```
Hello, Python!
```

Flask Framework:

Flask is a web application framework written in Python. Armin Ronacher, who leads an international group of Python enthusiasts named Pocco, develops it. Flask is based on Werkzeug WSGI toolkit and Jinja2 template engine. Both are Pocco projects.

Http protocol is the foundation of data communication in world wide web. Different methods of data retrieval from specified URL are defined in this protocol.

The following table summarizes different http methods –

Sr.No	Methods & Description
1	GET Sends data in unencrypted form to the server. Most common method.
2	HEAD Same as GET, but without response body
3	POST Used to send HTML form data to server. Data received by POST method is not cached by server.

4	PUT Replaces all current representations of the target resource with the uploaded content.
5	DELETE Removes all current representations of the target resource given by a URL

By default, the Flask route responds to the **GET** requests. However, this preference can be altered by providing methods argument to **route()** decorator.

In order to demonstrate the use of **POST** method in URL routing, first let us create an HTML form and use the **POST** method to send form data to a URL.

Save the following script as login.html

```
<html>

<body>

<formaction="http://localhost:5000/login"method="post">

<p>Enter Name:</p>

<p><inputtype="text"name="nm"/></p>

<p><inputtype="submit"value="submit"/></p>

</form>

</body>
```

</html>

Now enter the following script in Python shell.

```
From flask import Flask, redirect, url_for, request

app=Flask(__name__)

@app.route('/success/<name>')

def success(name):

return 'welcome %s'% name

@app.route('/login', methods=['POST', 'GET'])

def login():

if request.method=='POST':

user=request.form['nm']

return redirect(url_for('success',name= user))

else:

user=request.args.get('nm')

return redirect(url_for('success',name= user))

if __name__ =='__main__':

app.run(debug =True)
```

After the development server starts running, open **login.html** in the browser, enter name in the text field and click **Submit**.

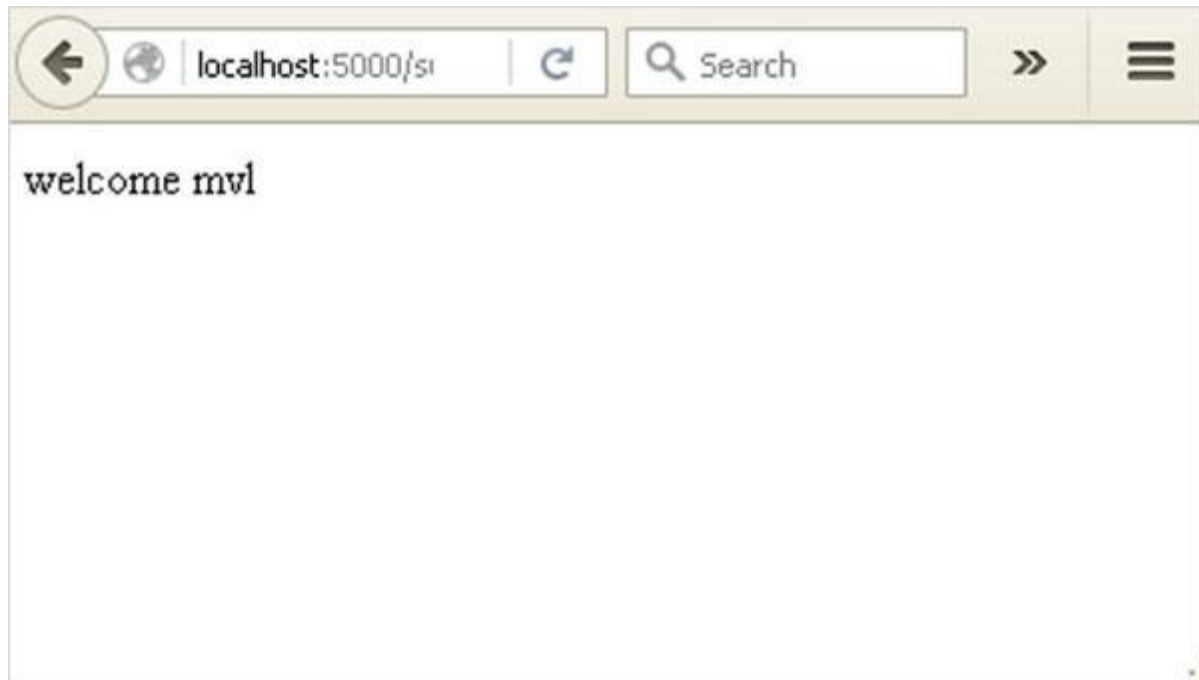
A screenshot of a web browser window. The address bar shows the file path 'file:///C:/login.ht'. The page content includes the text 'Enter Name:', a text input field containing the value 'mvl', and a button labeled 'submit'.

Form data is POSTed to the URL in action clause of form tag.

http://localhost/login is mapped to the **login()** function. Since the server has received data by **POST** method, value of 'nm' parameter obtained from the form data is obtained by –

```
user = request.form['nm']
```

It is passed to **‘success’** URL as variable part. The browser displays a **welcome** message in the window.



Change the method parameter to '**GET**' in **login.html** and open it again in the browser. The data received on server is by the **GET** method. The value of 'nm' parameter is now obtained by –

```
User = request.args.get('nm')
```

Here, **args** is dictionary object containing a list of pairs of form parameter and its corresponding value. The value corresponding to 'nm' parameter is passed on to '/success' URL as before.

CHAPTER 4

SYSTEM ANALYSIS

4.1 PURPOSE

The purpose of this document is detection of traffic sign using machine learning algorithms. In detail, this document will provide a general description of our project, including user requirements, product perspective, and overview of requirements, general constraints. In addition, it will also provide the specific requirements and functionality needed for this project - such as interface, functional requirements and performance requirements.

4.2 SCOPE

The scope of this SRSdocument persists for the entire life cycle of the project. This document defines the final state of the software requirements agreed upon by the customers and designers. Finally at the end of the project execution all the functionalities may be traceable from the SRSto the product. The document describes the functionality, performance, constraints, interface and reliability for the entire life cycle of the project.

4.3 EXISITNG SYSTEM

“Adyan Nur Alfiyatin, Hilman Taufiq and their friends work on the house price prediction. They use regression analysis and Particle Swarm Optimization (PSO) to predict house price”. One other similar work on the Mohamed El Mohadab, Belaid Bouikhalene and Said Safi to predict the rank for scientific research paper using

supervised learning. Kumar Arun, Garg Ishan and Kaur Sanmeet work on bank loan prediction on how to bank approve a loan.

4.4 PROPOSED SYSTEM

Loan approval is a very important process for banking organizations. The system approved or reject the loan applications. Recovery of loans is a major contributing parameter in the financial statements of a bank. It is very difficult to predict the possibility of payment of loan by the customer. In recent years many researchers worked on loan approval prediction systems. Machine Learning (ML) techniques are very useful in predicting outcomes for large amount of data. In this paper machine learning algorithms, are applied to predict the loan approval of customers. The experimental results conclude that the accuracy of machine learning algorithm is better as compared to Logistic Regression and Random Forest machine learning approaches.

CHAPTER 5

SYSTEM DESIGN

5.1 INPUT DESIGN

The input design is the link between the information system and the user. It comprises the developing specification and procedures for data preparation and those steps are necessary to put transaction data in to a usable form for processing can be achieved by inspecting the computer to read data from a written or printed document or it can occur by having people keying the data directly into the system. The design of input focuses on controlling the amount of input required, controlling the errors, avoiding delay, avoiding extra steps and keeping the process simple. The input is designed in such a way so that it provides security and ease of use with retaining the privacy. Input Design considered the following things:

What data should be given as input?

How the data should be arranged or coded?

The dialog to guide the operating personnel in providing input.

Methods for preparing input validations and steps to follow when error occur.

5.2 OUTPUT DESIGN

A quality output is one, which meets the requirements of the end user and presents the information clearly. In any system results of processing are communicated to the users and to other system through outputs. In output design it is determined how the information is to be displaced for immediate need and also the hard copy output. It is the most important and direct source information to the user. Efficient

and intelligent output design improves the system's relationship to help user decision-making.

The output form of an information system should accomplish one or more of the following objectives.

Convey information about past activities, current status or projections of the Future.

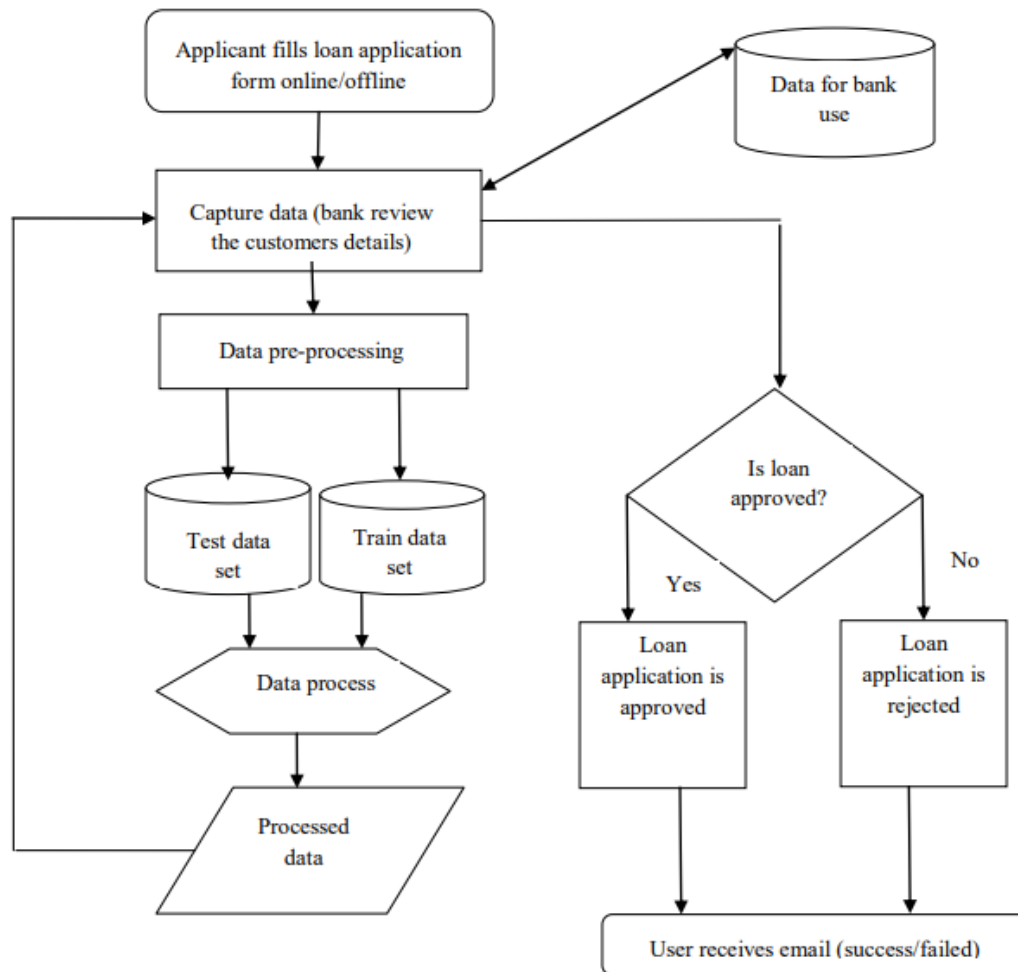
Signal important events, opportunities, problems, or warnings.

Trigger an action.

Confirm an action

5.3 DATA FLOW DIAGRAM

1. The DFD is also called as bubble chart. It is a simple graphical formalism that can be used to represent a system in terms of input data to the system, various processing carried out on this data, and the output data is generated by this system.
2. The data flow diagram (DFD) is one of the most important modeling tools. It is used to model the system components. These components are the system process, the data used by the process, an external entity that interacts with the system and the information flows in the system.
3. DFD shows how the information moves through the system and how it is modified by a series of transformations. It is a graphical technique that depicts information flow and the transformations that are applied as data moves from input to output.
4. DFD is also known as bubble chart. A DFD may be used to represent a system at any level of abstraction. DFD may be partitioned into levels that represent increasing information flow and functional detail.



UML DIAGRAMS

UML stands for Unified Modeling Language. UML is a standardized general-purpose modeling language in the field of object-oriented software engineering. The standard is managed, and was created by, the Object Management Group.

The goal is for UML to become a common language for creating models of object oriented computer software. In its current form UML is comprised of two major components: a Meta-model and a notation. In the future, some form of method or process may also be added to; or associated with, UML.

The Unified Modeling Language is a standard language for specifying, Visualization, Constructing and documenting the artifacts of software system, as well as for business modeling and other non-software systems.

The UML represents a collection of best engineering practices that have proven successful in the modeling of large and complex systems.

The UML is a very important part of developing objects oriented software and the software development process. The UML uses mostly graphical notations to express the design of software projects.

GOALS:

The Primary goals in the design of the UML are as follows:

1. Provide users a ready-to-use, expressive visual modeling Language so that they can develop and exchange meaningful models.
2. Provide extendibility and specialization mechanisms to extend the core concepts.
3. Be independent of particular programming languages and development process.
4. Provide a formal basis for understanding the modeling language.
5. Encourage the growth of OO tools market.
6. Support higher level development concepts such as collaborations, frameworks, patterns and components.
7. Integrate best practices.

USE CASE DIAGRAM:

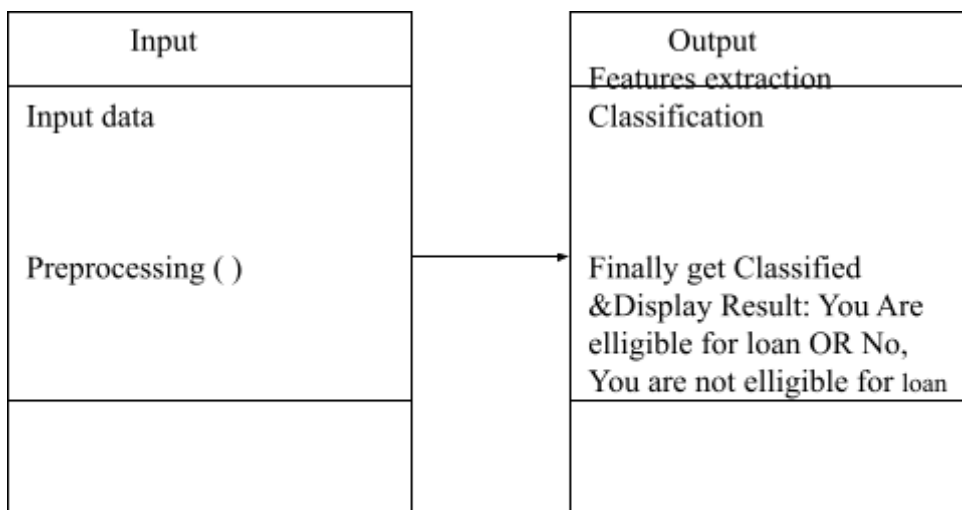
A use case diagram in the Unified Modeling Language (UML) is a type of behavioral diagram defined by and created from a Use-case analysis. Its purpose is to present a graphical overview of the functionality provided by a system in terms

of actors, their goals (represented as use cases), and any dependencies between those use cases. The main purpose of a use case diagram is to show what system functions are performed for which actor. Roles of the actors in the system can be depicted.



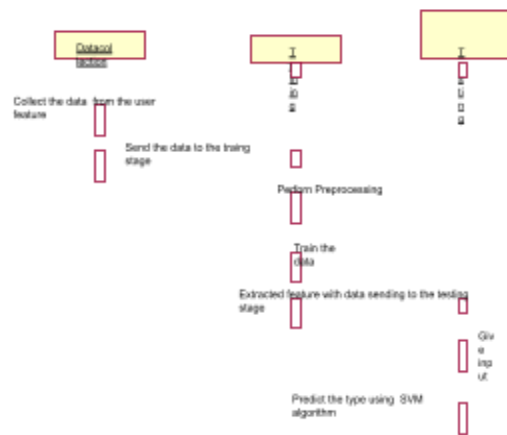
CLASS DIAGRAM:

In software engineering, a class diagram in the Unified Modeling Language (UML) is a type of static structure diagram that describes the structure of a system by showing the system's classes, their attributes, operations (or methods), and the relationships among the classes. It explains which class contains information.



SEQUENCE DIAGRAM:

A sequence diagram in Unified Modeling Language (UML) is a kind of interaction diagram that shows how processes operate with one another and in what order. It is a construct of a Message Sequence Chart. Sequence diagrams are sometimes called event diagrams, event scenarios, and timing diagrams.



ACTIVITY DIAGRAM:

Activity diagrams are graphical representations of workflows of stepwise activities and actions with support for choice, iteration and concurrency. In the Unified Modeling Language, activity diagrams can be used to describe the business and operational step-by-step workflows of components in a system. An activity diagram shows the overall flow of control.



Input
data

Preprocess
ing

Train
ing

SVM

You Are eligible for loan OR No,
You are not eligible for loan



CHAPTER 6

MODULES

MODULES

Data Collection Module

Determine The Training and Testing data

Data Cleaning and Pre-processing

Loan Prediction Module

MODULE DESCRIPTION

6.1 Data Collection Module

Loan Dataset is very useful in our system for prediction of more accurate result. Using the loan Dataset the system will automatically predict which costumer's loan it should approve and which to reject. System will accept loan application form as an input. Justified format of application form should be given as an input to get processed.

6.2 Determine the Training and Testing Data

Typically , Here the system separate a dataset into a training set and testing set ,most of the data use for training ,and a smaller portions of data is use for testing. after a system has been processed by using the training set, it makes the prediction against the test set.

6.3 Data Cleaning and Pre-processing Module

In Data cleaning the system detect and correct corrupt or inaccurate records from database and refers to identifying incomplete, incorrect, inaccurate or irrelevant parts of the data and then replacing , modifying or detecting the dirty or coarse data. In Data processing the system convert data from a given form to a much more usable and desired form i.e. make it more meaningful and informative.

6.4 Loan Prediction Module

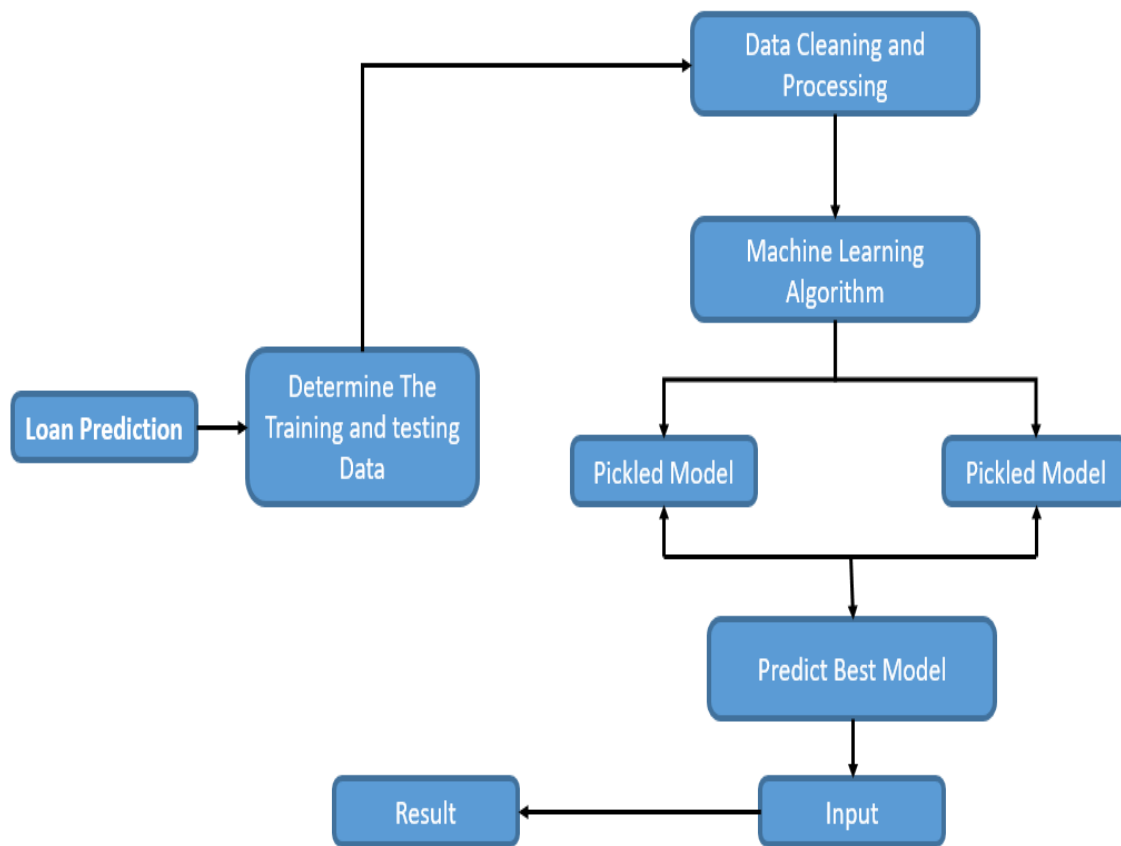
In this Module, It is very difficult to predict the possibility of payment of loan by the customer. In recent years many researchers worked on loan approval prediction systems. Machine Learning (ML) techniques are very useful in predicting outcomes for large amount of data. In this paper machine learning algorithms, are applied to predict the loan approval of customers. The experimental results conclude that the accuracy of machine learning algorithm is better as compared to Logistic Regression and Random Forest machine learning approaches.

CHAPTER 7

SYSTEM IMPLEMENTATION

7.1 SYSTEM ARCHITECTURE

Describing the overall features of the software is concerned with defining the requirements and establishing the high level of the system. During architectural design, the various web pages and their interconnections are identified and designed. The major software components are identified and decomposed into processing modules and conceptual data structures and the interconnections among the modules are identified. The following modules are identified in the proposed system.



CHAPTER 8

SYSTEM TESTING

8.1 Test plan

Software testing is the process of evaluation a software item to detect differences between given input and expected output. Also to assess the feature of a software item. Testing assesses the quality of the product. Software testing is a process that should be done during the development process. In other words software testing is a verification and validation process.

8.2 Verification

Verification is the process to make sure the product satisfies the conditions imposed at the start of the development phase. In other words, to make sure the product behaves the way we want it to.

8.3 Validation

Validation is the process to make sure the product satisfies the specified requirements at the end of the development phase. In other words, to make sure the product is built as per customer requirements.

8.4 Basics of software testing

There are two basics of software testing: black box testing and white box testing.

8.5 Black box Testing

Black box testing is a testing technique that ignores the internal mechanism of the system and focuses on the output generated against any input and execution of the system. It is also called functional testing.

8.6 White box Testing

White box testing is a testing technique that takes into account the internal mechanism of a system. It is also called structural testing and glass box testing. Black box testing is often used for validation and white box testing is often used for verification.

8.7 Types of testing

There are many types of testing like

- Unit Testing
- Integration Testing
- Functional Testing
- System Testing
- Stress Testing
- Performance Testing
- Usability Testing
- Acceptance Testing

- Regression Testing
- Beta Testing

8.7.1 Unit Testing

Unit testing is the testing of an individual unit or group of related units. It falls under the class of white box testing. It is often done by the programmer to test that the unit he/she has implemented is producing expected output against given input.

8.7.2 Integration Testing

Integration testing is testing in which a group of components are combined to produce output. Also, the interaction between software and hardware is tested in integration testing if software and hardware components have any relation. It may fall under both white box testing and black box testing.

8.7.3 Functional Testing

Functional testing is the testing to ensure that the specified functionality required in the system requirements works. It falls under the class of black box testing.

8.7.4 System Testing

System testing is the testing to ensure that by putting the software in different environments (e.g., Operating Systems) it still works. System testing is done with full system implementation and environment. It falls under the class of black box testing.

8.7.5 Stress Testing

Stress testing is the testing to evaluate how system behaves under unfavorable conditions. Testing is conducted at beyond limits of the specifications. It falls under the class of black box testing.

8.7.6 Performance Testing

Performance testing is the testing to assess the speed and effectiveness of the system and to make sure it is generating results within a specified time as in performance requirements. It falls under the class of black box testing.

8.7.7 Usability Testing

Usability testing is performed to the perspective of the client, to evaluate how the GUI is user-friendly? How easily can the client learn? After learning how to use, how proficiently can the client perform? How pleasing is it to use its design? This falls under the class of black box testing.

8.7.8 Acceptance Testing

Acceptance testing is often done by the customer to ensure that the delivered product meets the requirements and works as the customer expected. It falls under the class of black box testing.

8.7.9 Regression Testing

Regression testing is the testing after modification of a system, component, or a group of related units to ensure that the modification is working correctly and is not damaging or imposing other modules to produce unexpected results. It falls under the class of black box testing

REQUIREMENT ANALYSIS

Requirement analysis, also called requirement engineering, is the process of determining user expectations for a new modified product. It encompasses the tasks that determine the need for analyzing, documenting, validating and managing software or system requirements. The requirements should be documentable, actionable, measurable, testable and traceable related to identified business needs or opportunities and define to a level of detail, sufficient for system design.

FUNCTIONAL REQUIREMENTS

It is a technical specification requirement for the software products. It is the first step in the requirement analysis process which lists the requirements of particular software systems including functional, performance and security requirements. The function of the system depends mainly on the quality hardware used to run the software with given functionality.

Usability

It specifies how easy the system must be use. It is easy to ask queries in any format which is short or long, porter stemming algorithm stimulates the desired response for user.

Robustness

It refers to a program that performs well not only under ordinary conditions but also under unusual conditions. It is the ability of the user to cope with errors for irrelevant queries during execution.

Security

The state of providing protected access to resource is security. The system provides good security and unauthorized users cannot access the system there by providing high security.

Reliability

It is the probability of how often the software fails. The measurement is often expressed in MTBF (Mean Time Between Failures). The requirement is needed in order to ensure that the processes work correctly and completely without being aborted. It can handle any load and survive and survive and even capable of working around any failure.

Compatibility

It is supported by version above all web browsers. Using any web servers like localhost makes the system real-time experience.

Flexibility

The flexibility of the project is provided in such a way that is has the ability to run on different environments being executed by different users.

Safety

Safety is a measure taken to prevent trouble. Every query is processed in a secured manner without letting others to know one's personal information.

NON- FUNCTIONAL REQUIREMENTS

Portability

It is the usability of the same software in different environments. The project can be run in any operating system.

Performance

These requirements determine the resources required, time interval, throughput and everything that deals with the performance of the system.

Accuracy

The result of the requesting query is very accurate and high speed of retrieving information. The degree of security provided by the system is high and effective.

Maintainability

Project is simple as further updates can be easily done without affecting its stability. Maintainability basically defines that how easy it is to maintain the system. It means that how easy it is to maintain the system, analyse, change and test the application. Maintainability of this project is simple as further updates can be easily done without affecting its stability.

CHAPTER 9

CONCLUSION

This paper applied machine learning in prediction of loan approval. Support Vector Machine (SVM) is used to predict the loan approval status of customers for bank loans. The results shown that the prediction accuracy is Train Accuracy: 80% and Test Accuracy: 82%. According to this research paper prediction accuracy is good when compared to other existing systems. In some situations like client going through some disaster so here the algorithm cannot predict the appropriate result. This research paper can find out the client is potential or not.

In future a rigorous analysis of other machine learning algorithms other than these can also be done in future to investigate the power of machine learning algorithms for loan approval prediction.

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