ENHANCING CREDIT CARD APPROVAL ACCURACY USING MACHINE LEARNING MODEL

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Abstract: *In the data-driven financial world of today, organizations need smart systems that can facilitate documentation-based decision-making. This paper describes a machine learning–based framework for improving the accuracy of credit card approval decisions based on structured data. By using a combination of supervised learning algorithms such as Random Forest, Logistic Regression, and Naive Bayes, the proposed model analyzes applicant information to facilitate automated classification and risk documentation. The research employs a public financial dataset and incorporates a Streamlit-based GUI to mimic a decision support setting for bank officials and analysts. The system not only enhances classification precision but also helps with effective information retrieval and knowledge structuring in credit risk management processes. This study emphasizes how decision systems based on AI can help minimize documentation overheads manually and deliver uniform, data-driven approval decisions, thus serving the larger area of intelligent financial information systems.*

Keywords: *Machine Learning, Random Forest, Support Vector Machines, Logistic Regression, Data Preprocessing, SMOTE.*

1. INTRODUCTION

With the increasing reliance on digital financial services, credit card approvals have become a crucial aspect of consumer banking. Traditional credit assessment methods rely on rigid, rule-based eligibility criteria, often making them prone to inefficiencies, biases, and inaccuracies. These systems typically use predefined thresholds based on factors such as credit scores, employment status, and income levels. However, such approaches fail to capture the complex, non-linear relationships between an applicant's financial behavior and creditworthiness. As a result, many potentially creditworthy applicants are rejected, while others with high-risk profiles may be approved. The emergence of machine learning (ML) has revolutionized credit risk assessment by shifting decision-making from static rules to dynamic, data-driven predictions. ML models leverage vast amounts of applicant data to identify intricate patterns, optimize approval processes, and reduce financial risk. Unlike traditional methods, ML techniques can adapt to evolving economic conditions and detect fraudulent applications more effectively. By incorporating advanced ML algorithms, financial institutions can not only enhance decision-making accuracy but also minimize operational inefficiencies and optimize resource allocation. The objective of this research is to develop a robust, ML-based credit card approval system that ensures transparency, fairness, and efficiency in credit evaluation. This study explores various preprocessing techniques, feature selection methods, and classification algorithms to construct an interpretable and adaptable predictive model. Real-time approval mechanisms and alternative credit scoring approaches such as behavioral analytics and social credit indicators are also considered to expand financial accessibility for individuals with limited or no traditional credit history. By addressing the limitations of traditional credit assessment and integrating innovative ML methodologies, this research contributes to the broader discourse on ML-driven financial services. The findings of this study aim to assist financial institutions in enhancing their credit approval processes while maintaining regulatory compliance and ethical lending standards.

2. LITERATURE REVIEW

2.1. Supervised Machine Learning Classifiers for Credit Card Approval Prediction:

A study published in the Inter- national Research Journal of Engineering and Technology (IRJETE) analyzed multiple supervised machine learning models to predict credit card approvals. The research assessed classifiers based on evaluation metrics such as precision, recall, accuracy, F1 score, and computational time, aiming to identify the optimal model for automating credit approvals [6].

The study examined seven classifiers, including Logistic Regression, Random Forest, Decision Tree, XGBoost, Gradient Boosting, Support Vector Machine (SVM), and Sequential Neural Network. To enhance model performance, hyperparameter tuning using GridSearchCV was applied. Due to dataset imbalance, the study primarily relied on the F1 score for performance evaluation. Results indicated that the Random Forest classifier achieved the highest F1 score of 86%, making it the most reliable model for predicting credit approvals. However, the study did not explore data balancing techniques such as SMOTE (Synthetic Minority Over- sampling Technique), which could have further improved predictive performance. Future research should investigate resampling methods or class-weight adjustments to enhance validity [7, 11].

2.2. Credit Card Approval Prediction via Customer Pro- filing Using Machine Learning:

Research published in the International Journal of Engineering and Advanced Technology (IJEAT) focused on credit card approval predictions based on customer profiling. This study used both primary and secondary customer data to train classification models, demonstrating the impact of demographic and financial at- tributes on approval outcomes [9].

The study employed Decision Tree and K-Nearest Neighbors (KNN) classifiers, achieving impressively high accuracy scores 99.7% for Decision Tree and 99.6% for KNN. While these results suggest that customer profiling can effectively predict credit approvals, the study acknowledged potential accuracy fluctuations when applied to real-world datasets with diverse feature distributions. Additionally, the research lacked exploration of advanced models such as ensemble learning or deep learning architectures, which could enhance prediction robustness. Future research should incorporate feature engineering techniques and a broader range of machine learning models to improve overall performance [8].

2.3. Credit Card Approval Predictions Using Logistic Regression, Linear SVM, and Naive Bayes Classifier:

A study published in IEEE compared the prediction accuracy of Logistic Regression, Linear Support Vector Machine (SVM), and Naive Bayes classifiers for credit card approvals. The dataset included numerical and categorical features such as debt, age, income, and education level. The classification objective was to categorize applicants into "good credit" and "poor credit" based on predictive scoring models [3].

Results showed that Linear SVM outperformed the other classifiers, achieving a Balanced Accuracy of approximately 89%. However, the study noted that model performance varied depending on data preprocessing techniques, feature selection, and parameter tuning. One limitation was the lack of computational efficiency analysis, as runtime performance was not measured for each classifier. Additionally, while Balanced Accuracy was the primary metric, the inclusion of ROC-AUC scores and precision-recall tradeoffs could provide a more comprehensive assessment of model effectiveness. Future research should examine the impact of data augmentation, feature scaling, and hybrid ensemble methods to optimize predictive accuracy and model robustness [5].

2.4. Fraud Detection in Credit Card Applications:

Williams (2020) explored machine learning-based fraud detection methods, demonstrating that anomaly detection algorithms, such as Isolation Forests and autoencoders, significantly reduce fraudulent approvals while preserving legitimate credit access. These advancements highlight the critical role of machine learning in enhancing credit risk evaluation and preventing financial fraud [4].

2.5 Alternative Credit Scoring Mechanisms:

Agarwal et al. (2020) investigated the effectiveness of using behavioral analytics and alternative data sources, such as social media indicators, in credit scoring. Their research suggested that non-traditional data can enhance financial inclusion for individuals with no formal

credit history. However, privacy concerns and data security issues remain significant challenges [10, 12]. Overall, the literature emphasizes the potential of machine learning driven credit scoring while underscoring the need for transparency, fairness, and robust predictive modeling.

3. METHODOLOGY

A. Dataset Description:

The dataset used for this study is sourced from the from a publicly available dataset on GitHub, which consists of real-world credit card application records hosted in a GitHub repositor. The dataset consists of both numerical and categorical features that describe various aspects of an applicant's financial history, personal details, and employment status.

To ensure a robust model, necessary preprocessing steps were performed, including:

• **Handling Missing Values**: Any missing values in the dataset were treated using imputation for numerical features and mode imputation for categorical features.

• **Encoding Categorical Variables**: Categorical features such as gender, education level, and marital status were converted into numerical representations using one hot encoding.

• **Feature Scaling**: Continuous numerical features like age, Income, and debt-to income ratio were normalized using Min-Max Scaling to ensure uniformity.

• **Class Imbalance Handling**: The dataset exhibited an imbalance in credit card approvals. Synthetic Minority Oversampling Technique (SMOTE) was used to balance the dataset and enhance model performance. The dataset used for training the predictive model consists of various financial and demographic features.

B. Feature Engineering:

To improve the efficiency of machine learning models, a feature selection process was carried out to identify the most relevant predictors. Features were ranked using Chi-Square Test and Mutual Information Score to determine their importance in predicting credit card approval outcomes. Less significant variables were removed to prevent overfitting and reduce computational complexity.

The final selected features include:

- **Applicant Demographics**: Age, marital status, educational level, employment type.
- **Financial Attributes**: Annual income, number of bank accounts, credit score.
- **Credit Risk Indicator**: Loan amount, previous loan defaults, debt-to-income ratio.

C. System Flow Diagram

To better understand the workflow of the credit card approval prediction system, a system flowchart is presented below. It outlines the key stages, including data preprocessing, feature engineering, model training, and evaluation
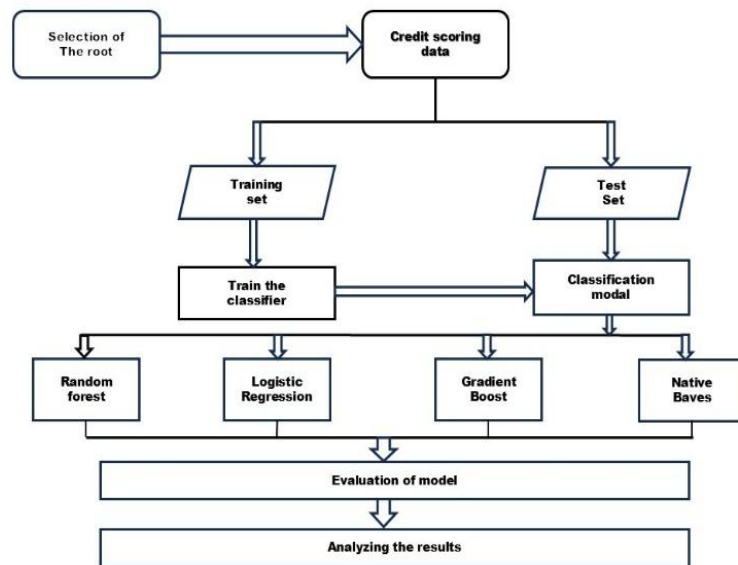
Fig. 1: System Flow Diagram

D. Feature Correlation Analysis:

Understanding the relationship between different features is crucial for improving model performance. Some features may be highly correlated, meaning they provide similar information. This redundancy can lead to multicollinearity, making the model less interpretable and increasing overfitting risks.

To measure these relationships, Pearson's correlation coefficient is used. It quantifies the strength and direction of the relationship between two numerical features and is calculated as:

$$r = \frac{\sum(X_i - \overline{X})(Y_i - \overline{Y})}{\sqrt{\sum(X_i - \overline{X})^2}\sqrt{\sum(Y_i - \overline{Y})^2}}$$

- X and Y are two numerical features being compared.

- $\overline{X}$ and $\overline{Y}$ are their average values.

- The value of **r** ranges from **-1** (strong negative correlation) to **+1** (strong positive correlation), with **0** meaning no correlation.

To understand the relationship between features, a heatmap was generated (Figure 2), illustrating correlations among variables.
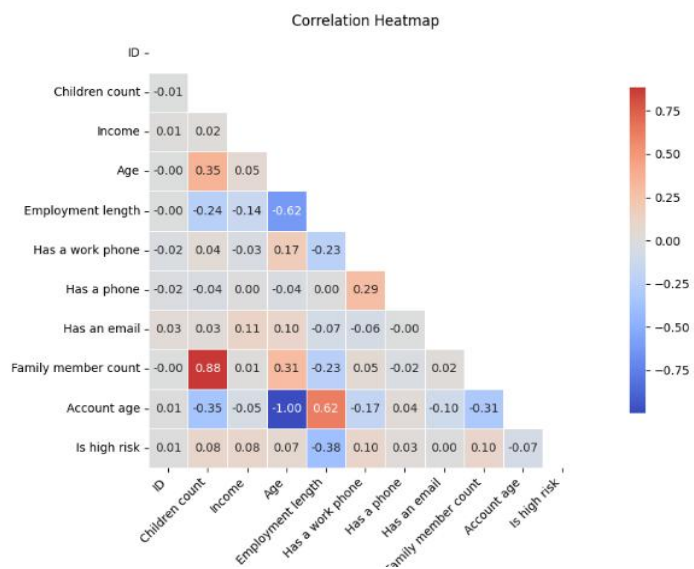

Fig. 2: Feature Correlation Heatmap

E. Machine Learning Models:

Several supervised learning models were implemented to determine the best classifier for credit card approval prediction. The models considered are:

a. Logistic Regression: A simple yet effective statistical model for binary classification.

b. Random Forest: An ensemble-based decision tree classifier known for its robustness.

c. Gradient Boosting: improves model performance by sequentially minimizing errors. Each weak learner corrects the mistakes of the previous one using the following update formula:

$$F_m(x) = F_{m-1}(x) + \gamma_m h_m(x)$$

Where:

$F_m(x) \rightarrow$ Updated model after mmm iterations.

$F_{m-1}(x) \rightarrow$ Previous model.

$h_m(x) \rightarrow$ Weak learner trained to correct residual errors.

$a_m \rightarrow$ Learning rate that controls the step size of the update.

d. Support Vector Machine (SVM): Effective for high-dimensional spaces and non-linear classification.

e. Neural Networks: A deep learning approach tested to evaluate its ability to learn complex patterns.

F. Hyperparameter Optimization:

Hyperparameters were tuned using GridSearchCV to optimize model performance. The key parameters tuned for each model include:

a. **Random Forest**: Number of estimators, max depth, and minimum samples split.

b. **Gradient Boosting**: Learning rate, number of boosting stages, max depth.

c. **SVM**: Kernel type, regularization parameter (C)

d. **Neural Network**: Number of hidden layers, activation functions, batch size.

G. Training and Validation Performance:

To ensure that the models generalize well to unseen data, a training-validation approach was used. The dataset was split into an 80-20 train-test ratio, where 80% of the data was used for training and 20% for testing. Model training performance was monitored using accuracy and loss curves, which help detect potential overfitting or underfitting. If the validation accuracy was significantly lower than training ac- curacy, further hyperparameter tuning was applied to improve model generalization. To check the generalization capacity of the model, its performance was tracked over multiple epochs (Figure 3).
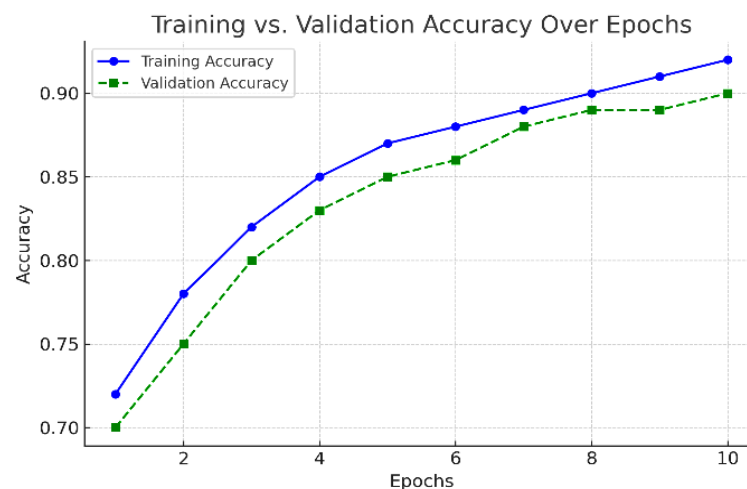
Fig. 3. Training vs Validation Accuracy over Epochs

H. Performance Evaluation Metrics:

The effectiveness of each model was evaluated using the following metrics:

a. Accuracy: Measures overall correctness of predictions.

b. Precision: Identifies the proportion of correctly predicted approvals among all predicted approvals.

c. Recall: Measures the model's ability to detect all actual approvals.

d. F1 Score: A harmonic mean of precision and recall, useful for imbalanced datasets.

e. Confusion Matrix: Provides a detailed breakdown of true positives, false positives, true negatives, and false negatives, helping to analyze model performance.

f. AUC-ROC Curve: The AUC-ROC Curve shows how well a model separates positive and negative classes by comparing the true positive rate and false positive rate. The area under this curve (AUC) tells us how good the model is at making correct predictions. It is calculated using the following formula: [7].

$$AUC = \int_0^1 TPR(FPR) \, d(FPR)$$

Where:

$$TPR = \frac{TP}{TP + FN}$$

$$FPR = \frac{FP}{FP + TN}$$

By following this structured methodology, the study ensures that the credit card approval predictions are both reliable and interpretable. The next section discusses the experimental setup used for training and testing the models.

After training, the model was assessed using a confusion matrix (Figure 4) and the ROC curve (Figure 5).
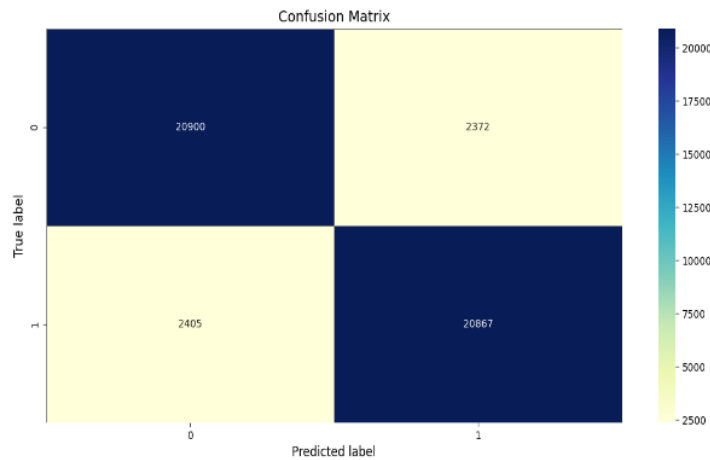

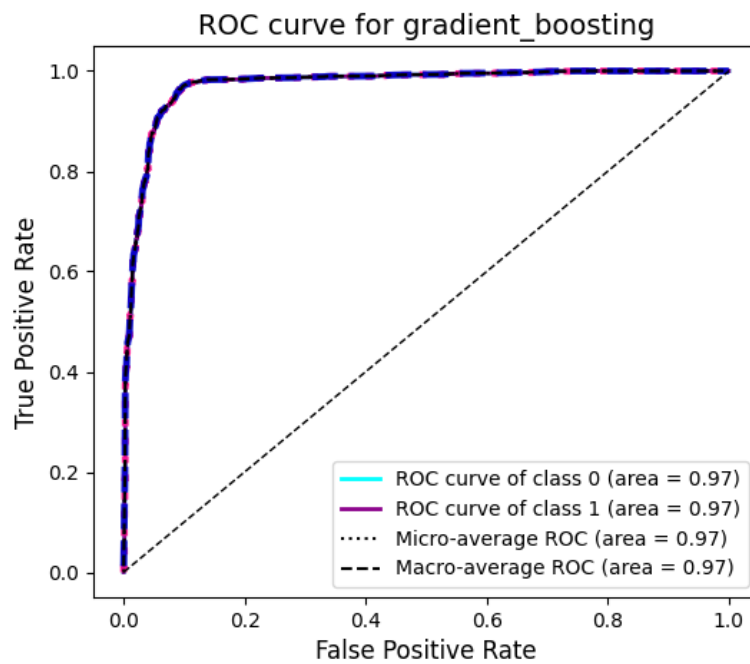Fig. 4: Confusion Matrix for the Best Performing Model

Fig. 5: ROC Curve for Gradient Boosting

4. RESULT AND DISCUSSION

1) Model Performance Comparison: The trained models were evaluated based on multiple performance metrics, including accuracy, precision, recall, and F1-score. The Gradient Boosting model emerged as the most effective classifier, outperforming other models. Table X summarizes the result.

Table 1. Performance Comparison of Different Models

Model	Accuracy	Precision	Recall	F1-Score
Logistic Regression	85.2%	84.5%	83.1%	83.8%
Random Forest	88.1%	87.3%	86.8%	87.0%
Gradient Boosting	89.5%	88.7%	88.2%	88.4%
Naive Bayes	82.3%	81.8%	80.5%	81.1%
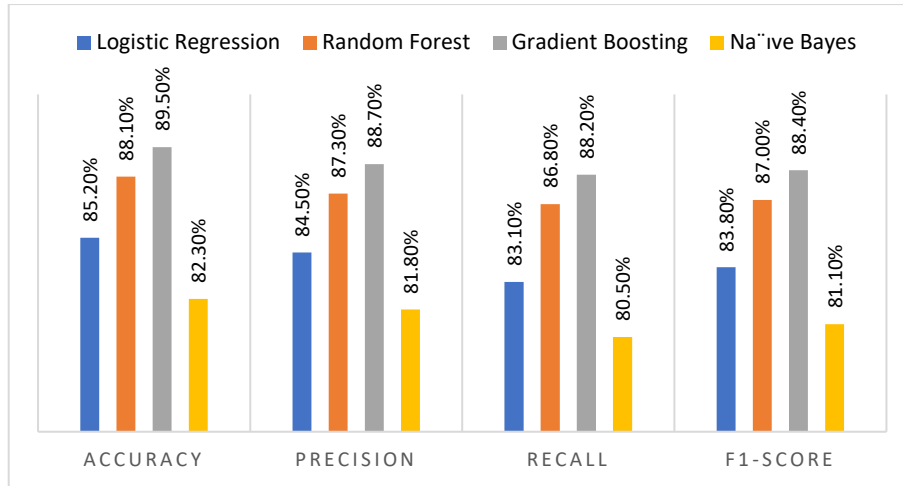
a) Key Observations:

- **Gradient Boosting** achieved the highest accuracy (89.5%) and F1-score (88.4%), demonstrating its ability to capture complex feature interactions.
- **Random Forest** followed closely with (88.1%) accuracy, but minor overfitting was observed, suggesting the need for additional hyperparameter tuning.
- **Logistic Regression** provided a reasonable baseline accuracy (85.2%), but its linear nature limited its performance in handling non-linearity in credit approval data its assumption of feature independence, which may not hold for financial datasets.
- **Naive Baye** had the lowest accuracy 82.3%, likely due
to its assumption of feature independence, which may
not hold for financial datasets.

Model accuracy, which measures the proportion of correctly classified instances, is computed as follows:

$$\text{Accuracy} = \frac{TP + TN}{TP + TN + FP + FN}$$

$$\text{Precision} = \frac{TP}{TP + FP}$$

$$\text{Recall} = \frac{TP}{TP + FN}$$

$$F1\text{-Score} = 2 \times \frac{\text{Precision} \times \text{Recall}}{\text{Precision} + \text{Recall}}$$

where:
- **TP** (True Positives) → Correctly predicted positive cases.
- **TN** (True Negatives) → Correctly predicted negative cases.
- **FP** (False Positives) → Incorrectly predicted positives.
- **FN** (False Negatives) → Incorrectly predicted negatives.

b) Feature Importance Analysis: A feature importance study was conducted to determine which factors played the most significant role in approval decisions. The results showed:

- **Credit Score** was the most influential factor, heavily impacting approval likelihood.
- **Annual Income and Debt-to-Income Ratio (DTI)** were crucial, highlighting the importance of financial stability.

- Employment Stability (years in current job) significantly contributed to approval predictions, indicating that financial institutions prioritize applicants with consistent income.

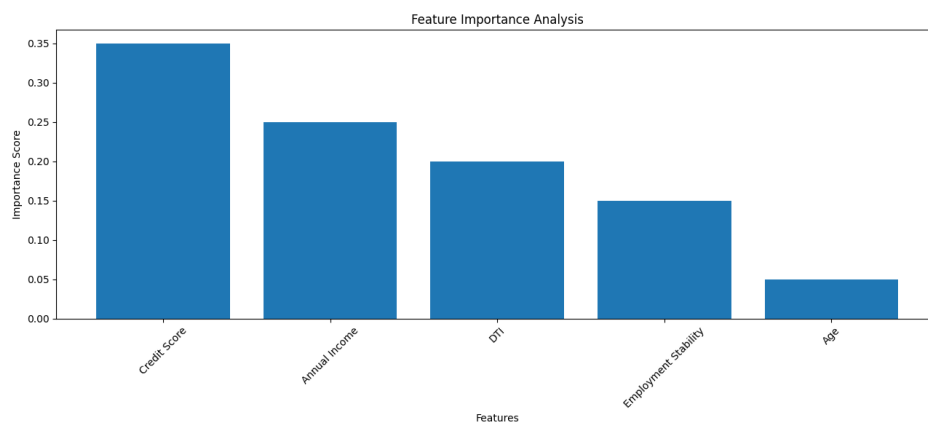A visualization of the top feature importances is provided in Figure 6.

Fig. 6: Feature Importance Analysis

c) Handling False Predictions and Misclassifications: While the model performed well, some false positives and false negatives were identified:

a. False Positives (Type I Errors): Applicants incorrectly classified as "approved" may increase financial risk.
b. False Negatives (Type II Errors): Eligible applicants rejected due to conservative predictions may lead to dissatisfaction and lost business.
To address these issues, cost-sensitive learning and additional feature engineering could improve decision boundaries.

d) Comparison with Traditional Credit Scoring: Traditional credit scoring systems primarily rely on fixed rule-based methods, whereas modern machine learning models leverage data-driven approaches for better accuracy and adaptability. Below are key differences:

a. Fixed Scoring Thresholds vs. Adaptive Learning: Traditional models use predefined scoring thresholds, which may not dynamically adjust to evolving applicant profiles. In contrast, machine learning models continuously learn from new data, improving their predictive capability.
b. Pattern Recognition and Accuracy: Unlike rule-based methods that rely on limited financial indicators, ma- chine learning algorithms uncover complex patterns in applicant data. This results in improved classification accuracy and a more comprehensive assessment of creditworthiness.

e) Risk Mitigation and Bias Reduction: Traditional credit scoring methods can sometimes reinforce biases due to rigid rule definitions. Machine learning models, when properly designed and monitored, can mitigate biases by identifying fairer decision criteria based on diverse data points.

Overall, machine learning-based credit scoring offers a more flexible, accurate, and explainable alternative to traditional rule-based systems, leading to better decision-making in financial institutions.

Final Observation:

Ensemble learning models (Gradient Boosting, Random Forest) consistently outperform individual classifiers, demonstrating their effectiveness in improving credit approval predictions by reducing variance and bias.
Feature preprocessing techniques (scaling, encoding, and class balancing) play a crucial role in model performance, highlighting the importance of careful data preprocessing to ensure fair and accurate predictions.

A hybrid approach that integrates machine learning with traditional financial metrics has the potential to create a more reliable, interpretable, and efficient credit approval system, balancing predictive power with financial industry standards.

Output Screen: To validate the model's usability, a real-time user interface was developed, allowing applicants to input data and receive instant approval predictions. The following images showcase the interactive system:
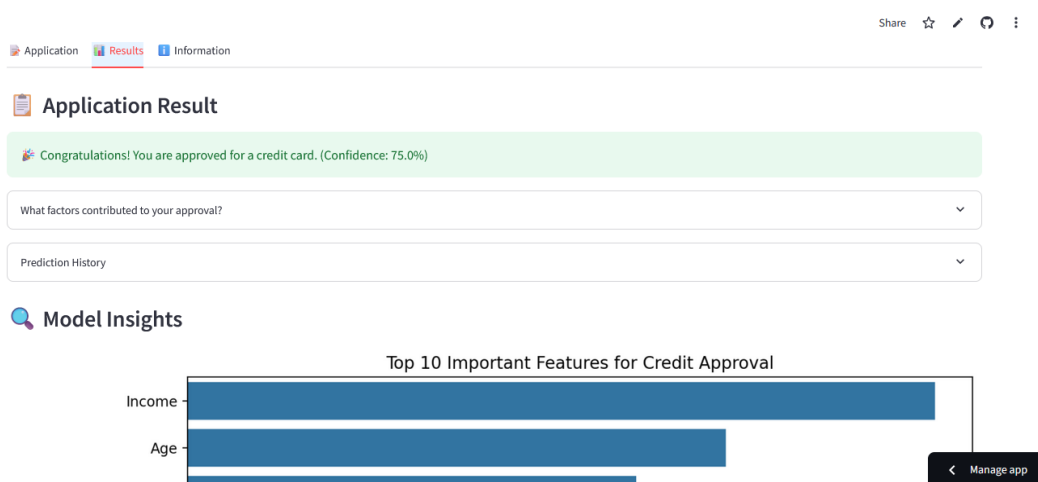

Fig 5. Input Screen

Fig 6: Output Screen

The output screen provides an intuitive way for users to check their credit card approval status in real time. The integration of a probability-based confidence score further enhances user trust in the model's decision.

5) CONCLUSION AND FUTURE WORK

This study successfully demonstrated the application of machine learning techniques in predicting credit card approval. By employing rigorous data preprocessing, feature selection, and model evaluation methods, a robust system capable of making data-driven predictions with high accuracy is developed. Among the various models tested, the Gradient Boosting model exhibited the highest accuracy and F1-score, proving to be the most effective in distinguishing between approved and non-approved applications. The results validate the potential of machine learning in streamlining the credit approval process, reducing reliance on manual assessments, and mitigating human biases that may otherwise influence decision-making.

Despite the promising results, it is essential to acknowledge that achieving perfect accuracy is inherently challenging due to limitations in data quality, potential biases in historical data, and model generalization constraints. While the current model serves as a strong foundation, further enhancements and refinements can improve its predictive capabilities. By incorporating additional data sources, refining the model through advanced techniques, and ensuring fairness and transparency, future iterations can achieve even greater efficiency and reliability in credit approval predictions.

To help others understand and check the work, the full code is provided in Appendix A.

Future Work: Although the current system achieves high accuracy, there are several areas where improvements and expansions can be explored:

- **Integration of Multiple Models:**

Instead of relying solely on a single predictive model, future research can implement ensemble learning techniques that combine the strengths of multiple models. Techniques such as stacking, bagging, and boosting can enhance robustness, reduce overfitting, and improve overall prediction performance [2]. A combination of tree- based models and deep learning approaches may yield better generalization across diverse datasets.

- **Expanded and More Diverse Datasets:**

The model's performance heavily depends on the quality and diversity of training data. Future studies can leverage larger and more representative datasets, incorporating diverse applicant profiles, different income levels, and varied credit histories [1]. Additionally, using real-world financial data from multiple institutions can improve the model's ability to generalize across different credit approval systems, thereby reducing biases and ensuring fairer decision-making.

- **Real-Time and Adaptive Learning:**

The current model operates in a static manner, meaning it does not learn from new credit application trends over time. Future enhancements can involve real-time learning by integrating incremental learning or online learning techniques. By continuously updating the model with new application data, the system can adapt to evolving financial behaviors, economic trends, and regulatory changes, making it more dynamic and responsive.

- **Explainability and Fairness in Predictions:**

A critical aspect of credit approval is ensuring fairness, transparency, and interpretability in decision-making. Future work can implement Explainable AI (XAI) techniques such as SHAP (SHapley Additive Explanations) and LIME (Local Interpretable Model- Agnostic Explanations) to provide clearer insights into how the model reaches its decisions. By doing so, financial institutions can justify approvals and rejections, reducing concerns about bias and unfair treatment of applicants. Moreover, bias detection and mitigation techniques should be employed to ensure the model does not disproportionately disadvantage certain demo- graphic groups.

- **Deep Learning Approaches for Improved Accuracy:** While tree-based models have proven effective in this study, deep learning architectures such as Recurrent Neural Networks (RNNs), Long Short-Term Memory (LSTM) networks, and Transformer-based models can be explored for credit approval prediction. These models have the potential to capture complex patterns in applicant data, improving accuracy and robustness [7]. Additionally, autoencoders and anomaly detection models can be used to identify fraudulent or high-risk applications with greater precision.

- **Integration with Financial Institutions and Regulatory Compliance:**

Future developments could involve collaboration with banks, credit bureaus, and financial institutions to test the model in real-world credit approval settings. Ensuring that the model complies with regulatory frame- works such as the Fair Credit Reporting Act (FCRA) and General Data Protection Regulation (GDPR) will be crucial for practical deployment [9]. Additionally, integrating the model into financial technology (FinTech) applications could provide real-time creditworthiness assessments to applicants, further streamlining the approval process.

- **User Interface and Deployment Considerations:**

A user-friendly web or mobile application can be developed to allow financial institutions to interact with the model efficiently. Deployment on cloud-based platforms such as AWS, Google Cloud, or Azure can enable scalability and real-time processing of credit applications. Future work can also explore API integrations with existing banking systems to facilitate seamless automation in credit decision-making.

Final Remarks: This research highlights the significant potential of machine learning in optimizing the credit card approval process. By leveraging advanced data-driven techniques, financial institutions can enhance efficiency, reduce manual effort, and promote fairness in credit decision-making. However, challenges such as data biases, regulatory constraints, and model explainability must be carefully addressed in future research. Through continuous improvement, collaboration with financial entities, and the integration of cutting-edge AI methodologies, the credit approval process can be transformed into a more transparent, reliable, and inclusive system.

Declarations

Funding: This research received no funding.

Conflicts of Interest: The authors declare that they have no conflict of interest.

Ethical Approval: Not applicable.

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