Abstract

This research explores the relationship between credit risk management practices and loan default rates, aiming to understand how effective risk management strategies influence the likelihood of defaults in lending institutions. With loan defaults posing significant financial risks, this study seeks to identify which credit risk management practices are most effective in mitigating defaults and maintaining the financial stability of banks and other lending organizations. The research adopts a multi-method approach, combining both quantitative analysis and qualitative insights.

In the quantitative phase, the study analyzes historical loan data from various lending institutions, assessing the impact of credit risk management techniques such as credit scoring models, collateral requirements, and loan diversification on loan default rates. Statistical methods, including regression analysis, are used to identify correlations between risk management practices and default rates across different loan types and borrower segments. The study also examines how external factors, such as economic conditions, influence the effectiveness of these practices.

The qualitative component of the study involves interviews with credit risk managers, financial analysts, and loan officers to gather insights into the practical application and challenges of credit risk management in real-world lending environments. These interviews help to contextualize the quantitative findings and provide a deeper understanding of the decision-making processes behind risk assessment. By integrating both methods, this study offers actionable recommendations for improving credit risk management strategies to reduce loan default rates and enhance financial stability.