

Estimating Loss Given Default

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The Basel II Accord offers banks the opportunity to estimate LGD if they wish to calculate their own value for the capital required to cover credit losses if extreme events occur. This paper will firstly evaluate alternative methods of modelling LGD. Then using methods which have been applied to calculate LGD for corporate portfolios we provide explanatory models of LGD at the level of the account for a large sample of credit card loans which are in default. We add some additional models which incorporate macroeconomic variables. This allows the modelled to be stressed as required under Basel II. The macroeconomic variables will also be included in a form which allows LGD to be predicted.