How Basel will affect Optimal Cut-offs

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Credit scoring will be the mainstay of the Basel Internal Ratings Based approach to the credit risk of retail portfolios. This paper looks at how Basel requirements will have an impact on the ideal cut-off odds and scores in acquisition and management systems. The changes in capital requirements, induced by Basel, affect the profit, volume and return on investment, which in turn means that the optimal cut-offs associated with efficient portfolios need to be adjusted. To take maximum advantage of the Basel formulae one will also need to choose carefully the score segments into which the portfolio is split.