

**Making Affordability Models work for you!**

The National Credit Act, recently introduced in South Africa, aim to curb “reckless” lending by imposing various laws on credit grantors. One section of the new act forces all credit grantors to do an affordability assessment prior to the granting of any credit. Since most credit grantors already do a risk assessment at account origination, the industry felt that the extra legislation will only decline previously good business and as such, a lot of resentment was seen towards the new act.

When an affordability model was analysed in detailed, it turned out that not only does an expert-affordability model add value in terms of risk separation, but it also indicate what facilities an applicant can afford to repay. As such, using an affordability model, the overall portfolio risk have reduced and this enable retailers to reduce the cut-off policies in order to maintain the previous accepted odds. Using an affordability amount to drive the facility, retailers can now grant higher facilities at account origination than ever before.

This presentation will focus on some of the difficulties, and solutions deployed, in building an affordability model for the South African environment. The next stage of the presentation will review the impact of using an affordability model in terms of risk, acceptance rates, profitability, and facilities granted. The final stage of the presentation will focus on potential areas and techniques for building an improved affordability model.

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