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Abstract

Loss Given Default is one of the components used to calculate credit risk capital. LGD can be defined as a mix of random events and decisions made by the lender to decide what kind of collection strategy should be used. These decisions affect the results and need to be separated out using modelling collection process.

As well as this it is necessary to estimate the uncertainty on how much can be recovered at each step of the strategy. We describe a two stage model for personal loans to predict LGD recovered in house. Results received and the structure of the model will be presented.