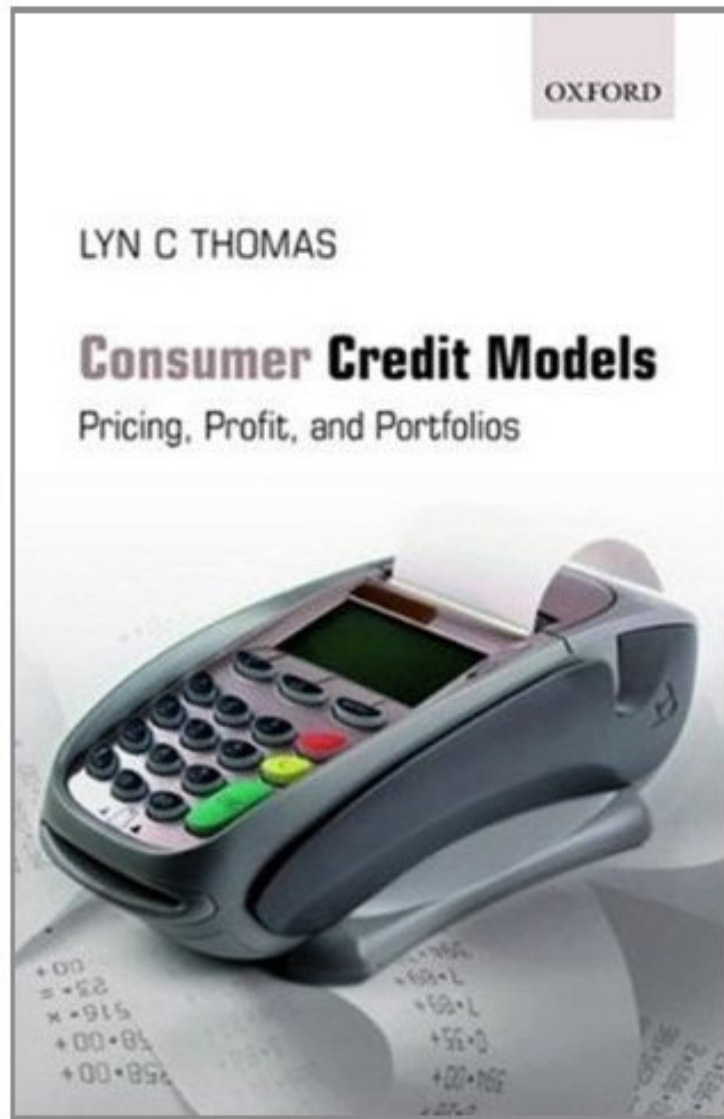


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Consumer Credit Models: Pricing, Profit and Portfolios

Lyn C. Thomas

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Lyn C. Thomas : Consumer Credit Models: Pricing, Profit and Portfolios before purchasing it in order to gauge whether or not it would be worth my time, and all praised Consumer Credit Models: Pricing, Profit and Portfolios:

6 of 6 people found the following review helpful. Perfect Credit Scoring Book For Learning and ReferenceBy LimorkilThis book is the kind of book you need when you start in a particular field of business or have been there for a while and need to remind yourself why certain things are done in a certain way. The author starts out with first principles and builds on the basics to cover every application and all the key alternative approaches. This book is not just "This is What We Do", it is also "And Here is Why and How". Everything is explained using examples and case

studies. There are a lot of mathematical symbols decorating many of the pages but none of it is particularly advanced and the non-mathematician can follow it easy enough if she starts at the beginning. If you get lost and forget what $f(x)$ and $p(g|x)$ are meant to be then just look at the example and it is all ridiculously easy to follow when the author puts it in plain English. The author does a great job of marrying theorems to business sense, so whether you are a statistics god heading one way or a business guru heading the other there is something for you here. The references are also top notch, so if you want more depth on something then the author usually points you to the definitive source. If you are only going to buy one book on the subject then you can do a lot worse than this one. 0 of 0 people found the following review helpful. It is good. By Prateek Bought this after researching for most quantitatively comprehensive text. It is good. 2 of 2 people found the following review helpful. Quality book. By Dimitri Shvorob It would have been helpful to survey the alternatives, and while I know that the (very nice) book by Raymond Anderson has a different style and is not a competitor, and the book by Naeem Siddiqi has uninspiring reviews, I cannot access the two books co-authored by Helen McNab. Steven Finlay's book looks solid, but largely "nested" by the combo of "Consumer credit models" and the 2002 book by Thomas, Edelman and Crook - which, I believe, jointly capture the domain knowledge available in book form. The book's subtitle, "pricing, profit and portfolios", identifies its focus and its difference from, and complementarity to, the 2002 predecessor. Chapters 3-5 are new. Chapter 5 stands a little apart from the rest and discusses all matters Basel, so the book's core is Chapters 3 and 4. The 50-page-long Chapter 3 considers the one-period interest-rate-setting decision (focusing on take-up rate and adverse selection; there is some discussion of non-price incentives, but it is not worked out and quickly skips over conditional logit to talk about something LP). Chapter 4, with 70 pages, goes multi-period, bringing in Markov chains and survival analysis. (Curiously, pages 207-209 show an ostensibly dynamic model that actually has no state dynamics - shockingly, the decision rule turns out to be time-invariant. I group this slip-up with the many typos scattered across the book, and a tiny number of minor statistical misstatements). The modeling on display may not always be immediately actionable, but it's always illuminating, and Lyn Thomas, in my opinion, is a really positive example of academic engagement with industry. His books, including this one, are the best thing on offer, and a must-see for practitioners in the area.

The use of credit scoring - the quantitative and statistical techniques to assess the credit risks involved in lending to consumers - has been one of the most successful if unsung applications of mathematics in business for the last fifty years. Now with lenders changing their objectives from minimising defaults to maximising profits, the saturation of the consumer credit market allowing borrowers to be more discriminating in their choice of which loans, mortgages and credit cards to use, and the Basel Accord banking regulations raising the profile of credit scoring within banks there are a number of challenges that require new models that use credit scores as inputs and extensions of the ideas in credit scoring. This book reviews the current methodology and measures used in credit scoring and then looks at the models that can be used to address these new challenges. The first chapter describes what a credit score is and how a scorecard is built which gives credit scores and models how the score is used in the lending decision. The second chapter describes the different ways the quality of a scorecard can be measured and points out how some of these measure the discrimination of the score, some the probability prediction of the score, and some the categorical predictions that are made using the score. The remaining three chapters address how to use risk and response scoring to model the new problems in consumer lending. Chapter three looks at models that assist in deciding how to vary the loan terms made to different potential borrowers depending on their individual characteristics. Risk based pricing is the most common approach being introduced. Chapter four describes how one can use Markov chains and survival analysis to model the dynamics of a borrower's repayment and ordering behaviour. These models allow one to make decisions that maximise the profitability of the borrower to the lender and can be considered as part of a customer relationship management strategy. The last chapter looks at how the new banking regulations in the Basel Accord apply to consumer lending. It develops models that show how they will change the operating decisions used in consumer lending and how their need for stress testing requires the development of new models to assess the credit risk of portfolios of consumer loans rather than a models of the credit risks of individual loans.

About the Author Lyn Thomas is Professor of Management Science at the School of Management at the University of Southampton and has for the last twenty five years been active as a researcher and consultant in the consumer credit area. He has co-authored and edited books and written over forty papers on consumer credit. He was the founder of the Credit Research Centre at the University of Edinburgh and has been joint organiser of the ten international Credit Scoring conferences. He is one of the principal investigators running the Quantitative Financial Risk Management Centre, a Past President of the Operational research Society, a consultant for several international financial organisations, and advisor to UK government departments. Professor Thomas is a Fellow of the Royal Society of Edinburgh, Institute of Mathematics and its Applications, and Operational Research Society.