

ABSTRACT

Improving credit offers using affordability predictions

There has been substantial pressure from regulators in recent years for lenders to identify overindebtedness and demonstrate that they are lending responsibly. In response to this, many lenders are now using affordability assessments as part of their front-end decisioning. By using an affordability measure that draws on credit commitments, application data and other externally-sourced information, a lender is able to build up a picture of a consumer's full commitment level and incorporate this into its lending decision.

The author adopts the premise that propensity and ability to pay are fundamentally different issues, and looks at how treating them as such enables lenders to extract the full potential from an affordability measure. This paper considers how a measure of an applicant's affordability may be used not merely as a further scorecard criterion, but to enhance a lender's account acquisition strategy. It details a study of the potential applications for an affordability measure, including the way in which it may be used to drive the credit offer and predict early settlement, as well as describing the way that stress tests may be used to simulate the changes in an applicant's affordability under different economic scenarios.

In summary, the author will demonstrate how an affordability measure can be used not merely to satisfy the regulators but to considerably enhance lending strategies.

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