Acceptance and Profit Modelling

P. Ma, J Crook, J Ansell
Credit Research Centre
University of Edinburgh

This paper will empirically examine the Oliver and Wells (2005) hypotheses concerning the attractiveness of an offer of credit and the profits that a lender can expect to earn from different offers. The model will include certain variables that the lender can control when making an offer. We model the probability that an offer of credit is accepted by the applicant and the probability that the applicant defaults using survival analysis and so we estimate the profit surface taking into account the conditional probabilities over different time durations. The results will show how a lender might adopt policies to increase market share and how this would impact on expected profit.