

DIRECTED RISK RESEARCH PROBLEM STATEMENT

Risk Theme	Quantitative risk	Problem Nr.	PS19004		
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Designation	Manager Scorecards				
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PROJECT TITLE: Investigation in the take-up of home loan

PROJECT GOAL

Absa is interested into the investigation of developing models to predict the take-up of a home loan offered.

HIGH LEVEL DESCRIPTION OF PROBLEM

On a daily basis, banks receive home loan applications from potential customers. Depending on the customer's risk profile, affordability, and other factors, the bank will decide whether or not to offer a home loan for this customer. The risk profile and affordability will dictate which interest rate and what loan amount (relative to the value of the house) will be offered. The take-up of these offered home loans influences the profit of a bank. If more customers take-up these offers, the profit can potentially increase (e.g. the increase in market share) and vice versa (e.g. decrease in market share). However, if more high risk customers take-up these offers, the bank might lose money (e.g. by customers defaulting). The opposite is true that if low risk customers decline these offers; the bank loses potential income.

PROJECT OBJECTIVES

The objectives of this project is to investigate whether it is possible to predict the take-up of a home loan offered.

OUTPUTS REQUIRED

- A paper that develops a take-up model to predict whether a customer will take-up a home loan.

STRATEGIC VALUE TO DIRECTED RISK RESEARCH

Understanding the factors that influence the take-up rates of home loans offered, the bank can potentially benefit through increased market share and profits.

