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Basel II Advanced IRB in Commercial Banking: Quantify the Borrower and Guarantor by Two-Step Scoring Model

Hengrui Qu, Citi Group Inc.
juan zhao, Citi Group Inc

ABSTRACT

For public companies, the probability of default usually adopts well-known structural and reduced form credit risk models. However, in commercial lending, there are large portfolios of unlisted companies, which could not use these two approaches. Furthermore, privately held companies commonly get a guarantor to enhance their credibility during loan application. Unlike the single logistic model used for retail credit risk analysis, two- step credit scoring models could be used to quantify both borrower and guarantor's risk exposed to unlisted companies based on the limited information maximum likelihood. This paper will focus on how to quantify the risk for commercial borrowers with guaranty by two-step scoring model, which provides Basel II advanced IRB risk measure: the PD for the commercial customer and transaction.

This paper was a late withdrawal and was not presented.

CONTACT INFORMATION

Hengrui Qu
Citi Group Inc.
hengruiqu@gmail.com

juan zhao
Citi Group Inc
juanzhao1@gmail.com

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