



**Forum on  
Validation of  
Consumer Credit Risk Models**

**November 19, 2004**

*A Wharton Impact Conference*

**Jon M. Huntsman Hall  
Philadelphia, PA**

The Wharton Financial Institutions Center  
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Philadelphia, PA 19104

<http://fic.wharton.upenn.edu/fic/>

Payment Cards Center  
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# Forum on Validation of Consumer Credit Risk Models

Credit risk models predicting performance of consumer loans or lines of credit are widely used by financial institutions to make acquisition and account management decisions on individual accounts and within large portfolios. The scope, scale, and application of these models have greatly expanded throughout the consumer credit sector.

Effective use of credit risk models requires an accurate assessment of their strengths and weaknesses, all within the context of a dynamic environment. Issues and challenges facing consumer credit modelers vary considerably across the range of applications employed and among the multiple dimensions within applications. At the same time, the regulatory community seeks to ensure that the application of modeling technologies and the management processes around them do not lead to undue risk from model mis-application or mis-specification.

One area where industry practitioners, academics, and policymakers share a common focus is on the need

for model validation and better understanding of the associated model risk. In simple language, how do we determine whether our credit risk models are working as intended? How do we think about the differences between validation of scoring models and validation of dollar loss forecasting models? Many of these issues are technical in nature and are often addressed in either highly theoretical discussion or with proprietary statistical solutions. This forum focuses on general principles management can use as keys to validation and risk assessment.

The program sponsors have organized this forum to enhance understanding of the many complexities underlying this issue and, ultimately, to develop new insights into directions for improvements. Importantly, the forum design emphasizes a dialog that incorporates the various perspectives and experiences within the group of invited experts. Following the event, a summary will be prepared for broader distribution.

## AGENDA

- 8:30 am **Registration and Coffee**
- 9:00 am **Welcome and Introduction**  
 Carol Leisenring  
*Co-Director, The Wharton School's Financial Institutions Center*  
 Peter Burns  
*Vice President & Director, Payment Cards Center*  
*Federal Reserve Bank of Philadelphia*
- 9:15 am **What Is the Challenge and Why Is It Important?**  
 Dennis Ash, *Federal Reserve Bank of Philadelphia*
- What do we mean by model validation?
  - Why focus on credit scoring and loss forecasting models?
  - What are the risks of not getting it right? And what are the opportunities for those that can do better?
- 9:45 am **Break**

## AGENDA

- 10:15 am **Validating Credit Scoring Models**  
 Moderator: Christopher Henderson, *MBNA America Bank*  
 Panelists: David Hand, *Imperial College London*  
 Dina Anderson, *Trans Union*  
 Michael Mout, *Capital One*
- How often do we need to validate and what does this timing depend on?
  - Will one measure do?
  - What do we do when the future is different from the past because of changes in the economy, changes due to portfolio acquisitions, changes in product terms, etc.?
- 12:00 pm **Informal Lunch**
- 1:00 pm **Validating Loss Forecasting Models**  
 Moderator: Joseph Breeden, *Strategic Analytics*  
 Panelists: Dennis Glennon, *Office of the Comptroller of the Currency*  
 Nicholas Souleles, *The Wharton School*  
 Ronald Cathcart, *Canadian Imperial Bank of Commerce*
- How are loss forecasting models different from credit scoring models?
  - What techniques (roll rate, vintage analysis, scoring-based approaches, etc.) are best used for forecasting dollar losses?
  - How do we best validate loss forecasting models and how is this different from or similar to validation of credit scoring models?
- 2:45 pm **Break**
- 3:00 pm **Where Do We Go From Here?**  
 Moderator: William Lang, *Federal Reserve Bank of Philadelphia*  
 Panelists: Robert Stine, *The Wharton School*  
 Erik Larsen, *Office of the Comptroller of the Currency*  
 Sumit Agarwal, *Bank of America*  
 Huchen Fei, *J. P. Morgan Chase & Co.*
- What should we most care about going forward?
  - What are the gaps in our understanding?
  - What things do we need to work on: to run the business, to provide effective oversight, and to resolve theoretical questions?
- 4:00 pm **Adjourn**