Financial Risk Management
Team Assignment 3

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Part 2. Prediction

- For the default model-
  - the variables chosen were:CSCORE_B, pneq, spread, cvr, DTI
  - starting by modelling with all variables, and the deleted the statistically insignificant ones.
  - Then checked the variables by trial and error to minimise AIC and kept the ones which deliver the lowest AIC

- For the prepaid model-
  - the variables chosen were:CSCORE_B, pneq, OLTV, ue, cvr, DTI
  - starting by modelling with all variables, and the deleted the statistically insignificant ones.
  - Then checked the variables by trial and error to minimise AIC and kept the ones which deliver the lowest AIC
  - Also considered concordance as a measure of performance- chose the model which had a small trade off for AIC for higher concordance

  - Although the AIC of model 3 still higher than the AIC of model 2, model 2 contains PROP_TYP and OCC_STAT which are not numerical variables so we eliminated those two

Cumulative Default Probability

We picked model 6 to be our default model.

(For DTI, we removed the NA values)
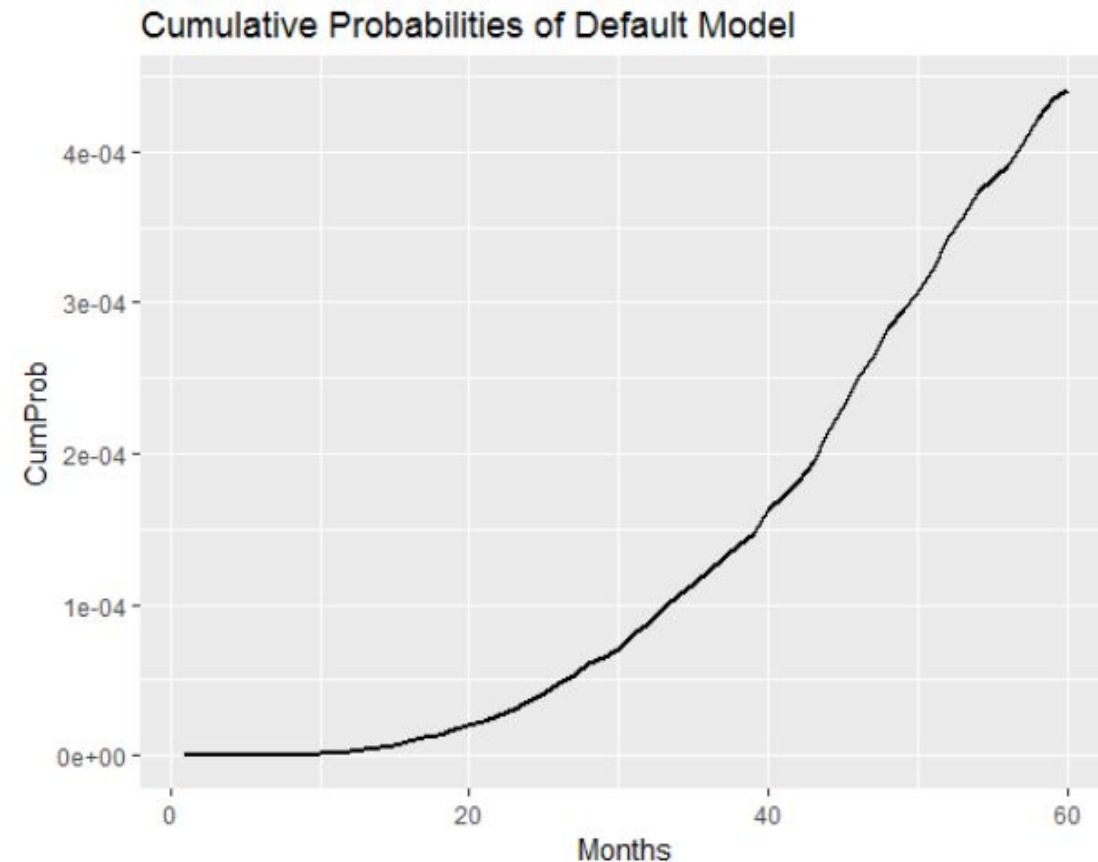
Cumulative Prepayment Probability

We picked model 3 to be our prepayment model.

(Although the AIC of model 3 still higher than the AIC of model 2, model 2 contains PROP_TYP and OCC_STAT which are not numerical variables so we eliminated those two.)

Cumulative Probabilities of Prepayment Model