

Abstract

A proportional hazards model approach was adopted to estimate risk of default for loan applicants. A sample of 500 applicants was observed for 36 months. The life of the account is measured from the month, it was opened until the account becomes 'bad' or it is closed or until the end of observation. The account is considered bad if payment is not made for two consecutive months in line with the industry practice. If the account does not miss two payments and is closed or survives beyond the observation period, then it is considered to be censored. The results showed that gender, employment sector and level of education are not significant in credit risk modelling. However, marital status, age, home ownership and duration at residence were found to be significant.

Keywords and phrases:

survival analysis, Cox proportional hazards model, default risk.