



## **EAD MODELING FOR CREDIT CARD**

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### **Abstract**

The estimation of Basel II/III risk parameters (PD, LGD, EAD, M) is an important task in banking and other credit providers. These parameters are used on one hand as inputs to credit portfolio models, and on the other hand, to compute risk-weighted assets, regulatory, economic and other capital. EAD modeling for the credit card portfolio presents some challenges driven by the characteristics of the portfolio. We seek to demonstrate some practical techniques for the estimation of EAD for Credit Card, mostly based on the work by G. Moral [G. Moral, EAD Estimates for Facilities with Explicit Limits, Chapter X of The Basel II Risk Parameters, Bernd Engelmann and Robert Rauhmeier, Springer, Berlin, Heidelberg, 2006].

**Keywords and phrases:** credit card, exposure at default, loan equivalent, credit conversion factor.

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