

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



Lending Databases (Mortgage Loan Servicing and Loss Given Default Databases)

SPI Committee
April 27, 2007 Meeting

Project Objective:

To prepare a set of recommendations on the consensus-building, practical and technical steps that the banking system will need to take in order to set up databases that address mortgage loan servicing and loss given default information requirements.

Project Working Group Activities

PWG members: 8

PWG meetings: 1

Public stakeholders

- National Bank of Romania.

Private stakeholders

- Banking sector (3 banks).

Project Main Steps

Dec. 2006: Convergence appoints the project technical anchor (Italian Banking Association)
Dec. 19, 2006: Technical workshop on the “International Experience with Lending Databases”, with the participation of the Italian Banking Association
Feb. 1, 2007: Project strategy meeting defining the project objective and the guiding principles, based on the technical anchor recommendations
Apr. 19, 2007: SPI Secretariat submits to the SPI Committee members from NBR and RBA and to the project owner the project status report and a “rescue” strategy for their endorsement and action.

Summary of Impact Assessment:

X: First full year, **Y:** 5-year NPV - (Mln RON)

- Government: tax revenues (1.2, 12.1);
- Banks: Lending increase (59, 658);

For more information, please contact:

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Project Team

Project Management Group

Project Owner (PO): Nicolae Danila, CEO, BCR

Project Managers (PM): Arion Negrila and Dragos Stoian, Director, BCR

Deputy Project Manager (DPM): Beatrice Popescu, Alpha Bank

Project Working Group

Angela Margarit, National Bank of Romania

Bogdana Grigoroiu, Raiffeisen Locuinte

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SPI Project Technical Anchor

Italian Banking Association

SPI Project on
Lending Databases
(Mortgage Loan Servicing and Loss Given Default Databases)

I. Summary of actions undertaken so far

A. Technical Workshop on the “International Experience with Lending Databases”

The technical workshop held on Tuesday, December 19, 2006, at the Romanian Banking Association, aimed at helping the local stakeholders build a common understanding on the two lending databases starting from existing international hands on experience on the matter presented by experts from the Italian Banking Association (ABI), which represents the project technical anchor.

The ABI experts made the following recommendations:

- a) Banks should *start by understanding the benefits* of setting up the two databases;
- b) The databases set-up should be a *joint effort* by the banking community and the NBR in order to ensure consistency with the central bank requirements;
- c) Once the specific data needs are clear, it is important to agree on a *uniform set of definitions* for data collection purposes;
- d) The database project working group should then focus on thinking how to *design an uniform database structure* and at the practical implementation solutions;
- e) The database project working group could also think on how to *enhance the use of credit registers’ databases*.

B. Project Strategy Meeting

At the project strategy meeting held on February 1, 2007, the project working group (PWG) agreed that:

- i. the above mentioned recommendations made by the technical anchor could represent the *guiding principles* for the future work of the project working group;
- ii. the databases should include *information that could be used by both risk management and business development* departments of banks;
- iii. the process of designing the database should be very transparent and the banking community should be kept *informed regularly* on the progress of the PWG;
- iv. the PWG members from banks will make a list of the *databases information requirements* from both a risk management and business development perspective and will send their feedback on the questionnaire on the potential benefits stemming from inter-bank LGD/MLS databases and on the experience of their mother entities (both by February 8, 2007);
- v. the SPI Secretariat will support the PWG in identifying *possible local and international off the shelf solution providers*.

C. Actions undertaken by the PWG

So far, only two of the banks represented in the PWG have submitted a partial feedback on the questionnaire with respect to the benefits stemming from inter-bank LGD/MLS databases. The responses received outline that the respondent banks perceive important benefits in terms of improving their information systems and achieving a capital relief from the application of the Basel II requirements. No feedback has been received from banks on the databases informational requirements or on the relevant experience with setting up LGD/MLS databases of their mother entities.

D. Actions undertaken by the SPI Secretariat

The SPI Secretariat undertook the following actions to support the PWG work:

- i. **contacted possible domestic and foreign off-the-shelf database solutions providers** and requested more information on their experience in setting up industry-wide databases;
- ii. one of the international companies with concrete experiences in setting up data consortiums for LGD and MLS made a presentation to banks and representatives of the NBR on April 11, 2007;
- iii. **outlined the informational requirements for the LGD database and a possible database architecture**, based on the information received from the technical anchor – Italian Banking Association. This documentation has been made available to the PWG by the SPI Secretariat on March 6, 2007.

II. The need for a project “rescue” strategy and possible solutions

In view of the limited involvement of the PWG in project activities, the SPI Secretariat has prepared a “rescue” strategy in order to have a more active engagement of the local stakeholders, given the high importance of this project for the Romanian banks. The strategy was submitted to the NBR and RBA Steering Committee members and to the project owner on April 19, 2007, for their endorsement and action.

The strategy proposes the following measures in order to catalyze stronger involvement by local stakeholders (banking community and NBR) in the design of possible industry-wide database solutions:

1. **the RBA to increase the number of banks represented in the PWG and to diversify the profile of the project team.** In this regard, it would be useful to have more banks involved in the project, which could support the awareness-raising on the importance of the project and could bring a new impetus to the project. Likewise, it would be important to achieve a balanced mix of experts with risk management, business development, legal, and IT background;
2. **the NRB Supervision Department to get involved in the project.** The involvement of the NBR Supervision Department is justified by the relevance of the two databases for the application of the Basel II requirements and the future involvement of the NBR in analyzing and approving the banks methodologies;
3. **the NBR and the RBA to start together, with SPI Secretariat help, an awareness-raising campaign** on the importance of the two databases for the further development of the banking sector. This campaign would be important for getting the support of the banking community in implementing this initiative;

4. **the expanded project team to prepare a concrete action plan for the project for the endorsement of the SPI Committee** by mid May. The action plan will be designed by the expanded project team, with the support of the SPI Secretariat and the project technical anchor.

The SPI Secretariat has also submitted to the NBR and RBA SPI Committee members the draft appointment letters for the recommended new members of the project working group.

The new project team should meet no later than early May in order to design a concrete action plan for the project revival, with the support of the SPI Secretariat and of the technical anchor. The action plan will be sent in due time to SPI Committee members for their endorsement in mid May.