



Building Industry Lending Databases

***(MLS – mortgage loan servicing and
LGD – loss given default databases)***

SURVEY

March 2008

Context

In order to benefit of the Basel II more favorable provisions on assessing the capital requirements, the banking system should create and maintain the following industry databases:

***Mortgage Loan Servicing Database:** allowing the calculation of the following ratios: default rate and recovery rates for loans secured by mortgages on residential real estate and, if endorsed by the National Bank of Romania, also on commercial real estate whose guarantee value is up to 50% of the market value respectively. The database should gather also information on the real estate market (market values of real estate properties).*

***Loss Given Default Database:** containing loan-specific data, including transaction and cash flow information that would enable users to more accurately quantify the unique characteristics of loan credit risk. The LGD database would also provide a rich repository of loss experiences as most banks will not have enough internal observations to draw any meaningful conclusions.*

These projects are taken under the auspices of the SPI public-private partnership for Romanian financial sector modernization set up by the National Bank of Romania, the Ministry of Economy and Finance, the National Authority for Consumer Protection and the Romanian Banking Association with the support of Convergence Program.

Aim

The survey aims at facilitating the understanding of the benefits of establishing the two databases.

Final findings of this survey will be shared in an aggregate form with the banking community..

Reply deadline

Filled Survey should be sent back no later than March 14, 2008.

Contacts

For any questions and addressees of filled questionnaires, please contact:

- Ms. Ramona Bratu – Director of Bank Products and Services,
e-mail: ramona.bratu@convergence-see.eu

Answers and data will be treated in strict confidentiality.

Information on the person filling the questionnaire

Person in charge

Name and Surname:

Position:

Bank:

Department/Unit:

Phone number:

Email:

Potential benefits stemming from an inter-bank LGD/MLS databases

Question 1: Which Basel II approach does your bank plan to adopt over a 5-year time horizon?

Credit Risk Approaches		By 2012
a)	Standardised	
b)	IRB - Foundation	
c)	IRB - Advanced	

Question 2: Does your bank have already in place or plan over next 3 years to set up an internal database?

	Already in place		In the next 5 years		Not planned
	Yes	No	Yes	No	
LGD database					
MLS database					

Question 3: Please mention the main lending-related internal applications that are currently up and running in your bank.

Database	Short description

Question 4: Basel II Capital Accord requires banks to dispose of adequate information in order to benefit from more favorable capital requirements. Tables 1 and 2 below outline the main benefits:

Table 1

LGD	
Methodology	Benefits
Foundation	45% LGD value for most unsecured transactions and a 75% LGD applied to subordinated exposures
Advanced	LGD reflects each exposure determined on a case-by-case basis

Table 2

Mortgage Lending	
Type of collateral	Benefits
Mortgages on residential property	Risk weighted at 35% (instead of 50%)
Mortgages on commercial property	Risk weighted at 50% (instead of 100%)

Do you think that the establishment of such inter-bank databases can significantly help your bank to obtain the benefits provided by Basel II Capital Accord?

LGD		Yes	No
Methodology	Benefits		
Advanced	LGD reflects each exposure determined on a case-by-case basis		
Mortgage Lending		Yes	No
Type of collateral	Benefits		
Mortgages on residential property	Risk weighted at 35% (instead of 50%)		
Mortgages on commercial property	Risk weighted at 50% (instead of 100%)		

Question 5: What kind of value added intra-bank LGD/MLS databases could provide to your bank?

Expected benefits from databases <i>(Even more than 1 option can be chosen, with an "x")</i>	
a)	More correct capital allocation
b)	More precise Loan Loss provisioning and pricing
c)	Improvement of risk mitigation and risk transfer
d)	Positive impact on internal control system
e)	Other (put it in writing in the box below)

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Question 6: What kind of contribution and to what extent, such inter-bank databases can help your bank overcome criticalities arising from running an internal database?

Types of valuable contributions complementing banks' internal databases		<i>If chosen, please select the degree of contribution</i>		
<i>Choose with an "x"</i>		High	Medium	Low
a) Deeper losses time series				
b) More granularity level for for internal LGD estimation				
c) External data contribution for other kinds of internal analysis				
d) Useful for other credit risk management applications				
e) Other (put it in writing in the box below)				

Question 7: Based on the above answers, please state your preliminary opinion on your bank's interest in being part of the two databases (as provider and beneficiary), subject to further proper approval of the bank's management.

Yes

No