

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

Project Working Group Third Meeting February 4, 2008, Credit Bureau Office

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.

Participants:

Project working group:

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SPI Secretariat

Ramona Bratu, SPI Director for Bank Products and Services

Meeting objective

The objective of the meeting was that PWG members explore together with Credit Bureau's representatives the possibility to have the databases created and managed by an already existing institution.

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MINUTES

1. Introductory remarks

SPI Secretariat provided a brief introduction in the project on mortgage loan servicing (MLS) and loss given default (LGD) databases. The project on mortgage loans servicing database was proposed by banks primarily for benefiting of Basel II provisions on preferential risk weights for mortgages (under the given circumstances), while LGD project was proposed by NBR, Stability Department. NBR also proposed a real estate database to be created, idea that could deserve a future consideration.

SPI Secretariat outlined the main benefits brought by the Loan Servicing Databases (LSD) to banks in terms of:

- reducing capital requirements under Basel II, through preferential risk weight for mortgages under certain circumstances and through using internal LGD estimates i.o. standard supervisory rules;
- improving risk management of the banks: better credit risk assessment based on the data pool on the mortgages and loans, and better adequacy between provisions and credit risk management (by using LGD-PD type methods for calculating provisions under IFRS).

For the central bank it would be useful to have access to the 2 databases for monitoring financial stability.

The databases have to contain three types of data reported monthly by banks:

1. information on the banks' counterparts;
2. information on the securities (guarantees plus collateral);
3. information on exposures

The PWG has identified 2 existing institutions that could undertake the set up and the management of LSD, one of them being the Credit Bureau. PWG intends to assess the possibility and the feasibility of having the LSD managed by one of the existing institutions or if a totally new institution has to be created.

2. Credit Bureau database

Credit Bureau is a company that manages a database on individuals:

- negative information on banks' clients: overdue debts more than RON 10 and longer than 30 days, inadvertences and fraudulent clients;
- positive information on loans values, lending period, type of loan, due dates, etc. As for collateral, there are information on co-debtors or endorsers. There is also a descriptive part for collateral and the standard used allows such information to be included.

At a first sight, if the information on mortgages is added, it would result a MLSD on individuals.

As for the data on loans to companies, these are already reported to NBR and an eventual more comprehensive reporting to the Credit Bureau will have to take into account the need to avoid overlapping.

As for the LGD containing data on the recovery process, the feasibility is the same as above for loans to individuals, while for corporate part it would be a considerable effort.

In order to estimate the possibility and willingness of developing such databases, the Credit Bureau needs to know:

- the banks' commitment to establish the databases, based on a bank survey;
- the exact data to be reported;
- the outputs and the frequency of delivering the output.

3.. Next steps

PWG will prepare the list of data needed for the database based on:

- a) the existing documents (SPI Secretariat will provide all new members with all documents prepared under the project);
- b) the experience in their mother – banks;
- c) the experience in other countries.

PWG members will send their findings to SPI Secretariat in order to be centralized.

PWG will inquire also on the output and frequency of the reports.

Next meeting: PWG could meet on Friday, February 18, to agree on the data needed to be reported and on the output issue.

SPI Secretariat will contact TransFonD, offering preliminary information on the project and asking for a meeting with their representatives.