

POSITION PAPER



ESBG Position in European Central Bank consultation on the provision of ABS loan-level information in the Eurosystem collateral framework

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The European Savings Banks Group (ESBG) appreciates the opportunity to contribute with its views as regards the provision of ABS loan-level information in the Eurosystem collateral framework.

General remarks

In principle, ESBG, the voice of Europe's savings and regionally oriented retail banks, welcomes the Eurosystem's initiative to improve transparency and increase confidence on the ABS markets, especially in light of the experiences made during the financial crisis. However, it should be stressed that a result which creates an excessive burden, especially for smaller credit institutions, needs to be avoided. Europe's small and medium sized banks should not be put at a disadvantage vis-à-vis their large competitors, particularly given the essential role they play as providers of credit and financial services in their local economies.

As regards the Eurosystem's proposal in its current form, ESBG has the following remarks:

- the costs of fulfilling the new information requirements will be substantial, at least in the early stages;
- consumer protection and confidentiality of data need to be held up high;
- consequences of non-complete reporting need to be clarified, they should be judicious and proportionate;
- the time needed for credit institutions to adjust to the new requirements should not be underestimated. It is necessary to find a pragmatic solution for ABS with older underlying loans; the option of grandfathering should be considered.

ESBG further highlights the importance of overall clarity and of a pragmatic approach to any issue which may arise in context of the new reporting system.

ESBG answers to the Eurosystem's questions

In its consultation document, the Eurosystem asked a number of specific questions, to which ESBG would like to report as follows.

1. *What would be in your view the foreseeable benefits and costs of having loan-level data available on an ongoing basis to market participants? Do you see alternative ways of achieving a major improvement in ABS transparency?*

ESBG generally agrees with the goal to increase transparency on the ABS market (primary and secondary). This could lead to higher investor confidence and improve market functioning, as well as increase activity on ABS markets. This could also benefit those markets which were affected by the crisis, therefore contributing to recovery. From a general point of view it is likely that better information will ultimately lead to better collateral and to lower interest rates for end-borrowers.

However, there remain doubts on whether the availability of loan-level data along the lines envisaged by the Eurosystem would be immediately useful for banks' own investment decisions, especially when



institutions find the information already provided by originators generally sufficient. In addition, a situation where investors overly rely on standardized data sets should be avoided, as should an outcome that would lead to ‘information overkill’.

As regards the costs of reporting loan-level information, ESBG foresees that high initial set-up costs would be followed by lower costs, once processes are automated.

Yet, the benefits of the Eurosystem requiring ABS loan-level information depend also on the following elements:

First, the kind of information collected is important. ESBG apprehends that too much importance is given to LTV and borrowers’ income (especially the latter is hard to predict, and dynamic updates can be very difficult or costly for banks). In addition, in some instances the added value of reporting information is questionable, since rating agencies already base their rating decisions on a large number of the factors to be reported.

Second, in the financial services area data protection and consumer protection are vital, and so is the confidentiality of customer data. The current proposal to report highly detailed information, however, opens up a possible trade-off between market transparency on the one hand and customer trust and protection on the other hand. This calls for a pragmatic solution where no questions should be left open.

Third, another issue to be clarified are the consequences for ABS’s eligibility as collateral, if compliance with the information requirements is incomplete. Would incomplete loan-level information automatically result in standardized haircuts or even in the ineligibility as collateral? Or would the sanctions depend on the ‘degree of incompleteness’, i.e. the amount and importance of the missing information? Here ESBG takes the view that it would be unjustified not to distinguish cases of near-complete compliance, where only one obligatory element of information is missing, from ABS where none of the required loan-level information has been given at all.

Fourth, ESBG foresees that discrimination by the ECB between ABS with different information levels (i.e. a preference for those ABS with more detailed information) could influence investors’ decisions and hence be reflected in how the different ABS are priced on the markets (primary and secondary market).

- 2. Is the concept of different but standardized loan-level reporting templates for all European ABS transactions and for each asset class valid (see the attached document “RMBS loan-level reporting template – Version 9”)? For what ABS classes could there be problems?*

ESBG generally agrees with the proposed standardization of the reporting template and with the differentiation according to the asset class. Maximum possible harmonization of the required information would be desirable.

This being said, especially for CMBS a far reaching standardization will be challenging, given their great variety. In addition, differences not only exist between asset types but also between jurisdictions, which will need to be taken into account in the design of the reporting sheet. Furthermore to be taken into account is the heterogeneity in the concepts used in different countries (LTV, default, foreclosure...)



Given these challenges, ESBG finds that the Eurosystem's intention to develop the reporting templates asset class by asset class is a pragmatic way forward.

3. *In relation to the RMBS loan-level reporting template, what fields would not be applicable in certain national markets? Why? What additional fields would be required, if any?*

ESBG believes that information requirements should be harmonized and easy to provide and understand.

However, due care needs to be taken that fields which are not applicable in all Member States do not become mandatory (for instance, in Germany the 'automated valuation method' is not common practice, with implications for the responses in fields 108, 109, 114 and 115 in the template "Newly Added Assets" and fields 44, 45 in template "Updating Dynamic Fields").

Generally, reporting problems can arise, if the information to be reported is not available at the banks, a situation which becomes the more likely the higher the level of detail required. This should be taken into account when deciding whether specific information is mandatory or optional.

4. *What impediments, if any, would originators face in submitting loan-by-loan information to fulfill the loan-level data requirements?*

ESBG would like to stress again the importance of personal data protection legislation, which may affect banks' ability to give loan level information.

In addition, there will be substantial additional IT costs, to be borne by originators. Furthermore, technical problems may initially arise, calling for pragmatism by all parties.

This being said, timing is an important issue. Especially for ABS where the underlying loans are older than the finalized information requirements, time will be needed to adapt to the new system, due to technical, practical and legal factors.

5. *Which of the scenarios presented, or combination thereof, would provide the best solution to the market, taking into account considerations such as data consistency and quality, competition, governance, cost, ease of data transmission, etc.?*

ESBG expresses support for scenario 2, in which originators and servicers have the option to choose from a set of registered portal providers, which, however, should all be registered, regulated and supervised.

Competition between portal providers would have the advantages of greater speed, lower costs, higher quality and less vulnerability to malfunctioning at, or failure of one provider. These advantages are similar to the wider advantages of pluralistic structures on financial markets.



6. *Is an envisaged preparation time of 12 months after the announcement date sufficient to adapt to the loan-level data requirements? If not, why?*

ESBG is skeptical that a period of 12 months will be enough to prepare all the reports and information required.

While for the provision of directly available data 12 months may be sufficient, reporting of additional information – concerning for instance the quality of the loan – will need a longer transition period (up to five years).

Especially for existing transactions (i.e. loans predating the new reporting requirements) ESBG believes that grandfathering would be the most adequate solution, given the otherwise disproportional costs.



About ESBG (European Savings Banks Group)

ESBG – The European Voice of Savings and Retail Banking

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5,972 billion (1 January 2008). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



ESBG - Association internationale sans but lucratif/Internationale vereniging zonder winstoogmerk/
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