ARTICLE

Looking to drive loan loss provisioning savings?

Luke Nestor, *Founder and EVP of Rockall, a Broadridge Business*

See how a banking book collateral management solution can help boost your bottom line.

Efficient loan loss provisioning (LLP) management can have a direct impact on a bank's bottom line. Credit loss allowances are expected to increase as impairment standards like IFRS 9 and FASB evolve. It's more important than ever to optimize LLP. Banks that can demonstrate robust loan collateralization are much better positioned than those who cannot.

CHOOSING THE RIGHT BANKING BOOK COLLATERAL MANAGEMENT SOLUTION CAN MAKE ALL THE DIFFERENCE

The best solutions standardize complex data to deliver a consolidated view of the loan book. Consolidated data helps bring together the wide-ranging data sets needed to achieve LLP reliability and efficiency.

NOT ALL LOANS ARE CREATED EQUAL

Collateral reduces credit risk in several areas, including regulatory reporting, capital cost and default exposure. It's crucial that banks capture, record, track and maintain collateral and/or guarantees that support all loans.

Consider a collateralized loan and a non-collateralized loan that are otherwise identical. The credit risk associated with the collateralized liability is less than the credit risk of the non-collateralized liability. In some cases, the credit risk for a collateralized liability may even be close to zero. In either case, however, the bank must prepare for potential credit loss.

Broadridge®

Measuring expected credit losses

Under IFRS 9's Expected Credit Loss (ECL) Framework, banks have two options for measuring ECL over the life of the loan.

OPTION 1

When a bank can track and manage collateral valuations at an individual loan level, they can apply the ECL Framework on each and every loan based on several factors:

- Borrower's credit score
- Current borrower debt levels (for all loans)
- Loan level
- Loan duration and deal LTV

OPTION 2

In the event a bank does not regularly track collateral valuations, IFRS 9 indicates that they can still track the sale value of the collateral. This approach enables banks to track collateral valuations and assign a group ECL against loans using similar collateral types.

Both scenarios require banks to record and trace collateral data in order to substantiate assigned ECLs. Tracing collateral data is complex. Banks must show either the collateral data feeding into an LTV or that a group rating based on collateral type is being applied. In addition, banks need to track and manage full address information for the borrower and the collateral. Precise tracking is critical in the event that collateral values deteriorate—whether in certain geographical areas or across demographics.

MONETIZE COLLATERAL ACROSS THE ENTIRE LENDING LIFECYCLE

There's a clear incentive to holistically track and manage banking book collateral data. Not only does active collateral management help banks meet demanding regulatory reporting requirements, it also delivers significant savings by supporting efficient loan loss provisioning models.

Let Broadridge help. COLLATE makes it easy to aggregate and standardize collateral data, empowering banks to clearly demonstrate collateral coverage and current valuations. Through a consolidated view of banking book collateral, you can drive efficient and reliable LLP and regulatory reporting.

For more, contact your Broadridge Account Representative today, or visit **broadridge.com/COLLATE**

BANKS MUST MANAGE COLLATERAL TO REDUCE CREDIT RISK

Capture

Record

Track

Maintain

ABOUT THE AUTHOR

Luke Nestor has been in the Financial Services technology business for over thirty years. An expert in credit and loan systems, Luke founded Rockall to create banking book collateral management products that deliver value both operationally and strategically. Over his career, Luke has designed and built retail banking systems across multiple divisions.

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