

The „Round Table“ – Expert Analysis of European Real Estate and Mortgage Law – Comparability, Legal Overview, Basis for Legal Reform and LGD Calculation

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2 Evaluation System as a Component of LGD Gradings Used for Credit Risk Models including Basel II

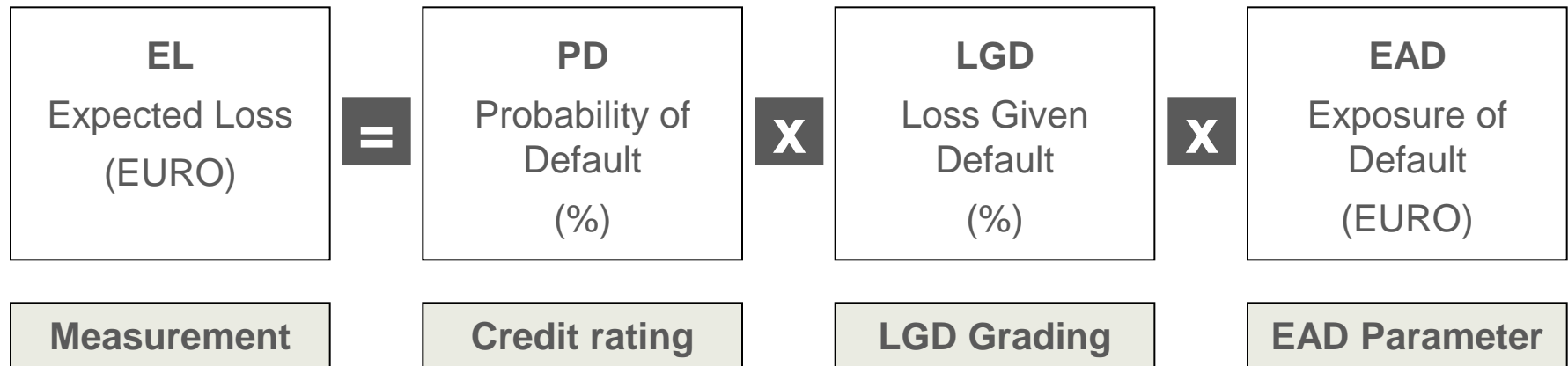
Need for an Evaluation System on Security Rights over Real Estate

Lessons to be learned from the Credit Crisis

- Enhanced requirements in respect of validation of credit risk models including Basel II (BIS best practice minimum requirements + EU CRD Directives)
- Restrictions for risk weight privileges of real estate collateral under the Basel Standard Approach by EU CRD under way
- Privileges can be maintained / achieved in practice by implementing validated Expected Loss calculation resp. LGD grading

Components of the Expected Loss

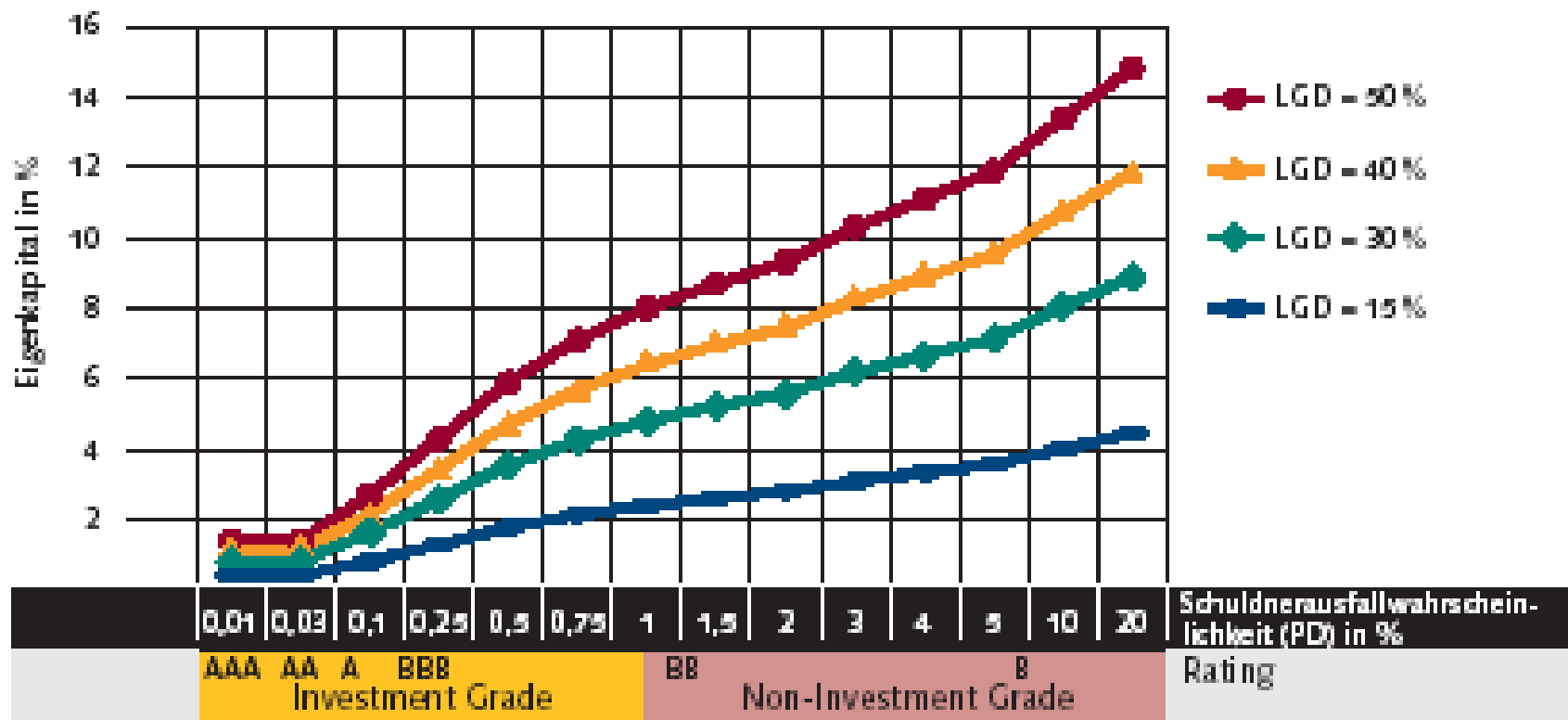
Credit risk models, including the Advanced Basel II Approach : capital calculation requires a separate measurement of the “Probability of Default“ and the “Loss Given Default“.



 The project aims at developing an instrument for measuring the “Loss Given Default“ (LGD Grading)

LGD is a driving factor of capital requirements calculation for real estate finance

Auswirkungen LGD auf die Eigenkapitalunterlegungspflicht



Need for an Evaluation System on Security Rights over Real Estate

The quality of real estate and mortgage legislation is a driving factor of recovery rates of collateralised RE finance in case of default

- Banking industry and Rating Agencies need reliable evaluation (as demonstrated by S & P Analysis „Jurisdiction Matters for Secured Creditors“, April 2006, and Moody’s analysis of MBS recovery rates)
- Evaluation systems such as Round Table scores can be used as scaling factors for individual countries to determine recovery rates / LGDs, bridging shortcomings of specific foreclosure data history.
- EU CRD minimum requirements / risk mitigation (Annex VIII, Part 2)

Need for an Evaluation System on Security Rights over Real Estate: EU CRD

■ 1.4. Minimum requirements for the recognition of real estate collateral

■ 8. For the recognition of real estate collateral the following conditions shall be met.

■ (a) Legal certainty

■ The mortgage or charge shall be enforceable in all jurisdictions

■ which are relevant at the time of the conclusion

■ of the credit agreement, and the mortgage or charge shall

■ be properly filed on a timely basis. The arrangements shall

■ reflect a perfected lien (i.e. all legal requirements for establishing

■ the pledge shall been fulfilled). The protection

■ agreement and the legal process underpinning it shall

■ enable the credit institution to realise the value of the

■ protection within a reasonable timeframe.

Thank you for your attention



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