Financial Stability Analysis
Using the tools, Finding the Data

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The views expressed are those of the author and do not necessarily represent those of the Federal Housing Finance Agency or its staff.

Do We Have the Tools and Data?

- Need high frequency data/tools to identify, diffuse and resolve a crisis or run when it happens (not my focus).

- Also need data/tools to identify the potential buildup of an asset bubble and the exposure of the financial system to it (my focus here).

- Short answer is that we have not implemented a good system with the right data/tools (bad news)

- However—there is a good roadmap as to how to do it (good news).

What do we need?

- Need to identify growing problem areas common to enough institutions to create systemic risk.
- Data is most useful for problems that the banks themselves do not see or do not chose to reveal to market or regulator.
- Best source for such information is analysis of standardized transaction level data regularly collected from multiple institutions.
- Data collection and analysis needs to be integrated into the exam system
  - Analysts identify potential problem areas from data
  - Examiners follow up “on the ground” where problems are identified

Why don't we have it?

- Institutions themselves don't have it.
  - Money made originating loans not monitoring them
  - Expensive to develop and maintain high quality monitoring data
  - Little incentive to do it unless forced to by regulators (or shareholders)

- Regulators have not pushed for such data
  - What data have been collected are often idiosyncratic to single banks or pre-aggregated such that transaction-level analysis is impossible (e.g. Basel data). Y-14 is promising exception.
  - Disconnect between analysts and examiners. Each siloed operating independently.

SNC—A template for how to do it

- Since 1977 agencies have had common exam of large syndicated credits shared by 3 or more banks
- As of 2013 this consists of about $3 trillion dollars of exposure (2/3 of C&I loan exposure at largest banks) in 8,000 credits. Agented by 188 different institutions.
- Agent banks submit information on individual credits each January in a common platform (quarterly for some)
  - Data include internal ratings, borrower identity, loan purpose, identities of all loan participants, and, recently, PD and LGD.
  - Data is used to select a risk-focused sample of about ¼ of the credits which are read by inter-agency teams of examiners
  - Lots of manual data cleaning at banks and by regulators
  - Incentive to get it right since loan can be read by an examiner

But only a partial success

- No evidence of problems in syndicated loans in 2008 crisis—looks just like 2001.
  - No accident—banks know loan might be looked at. Not a place for hiding risks or cutting corners.
- However, SNC has stalled since early 2000's and data aren't used to full potential.
  - Seen as an examiner program with data useful only to support exams. Examiners are distrustful of analysts (siloing/turf).
  - Despite offer, SNC not used for CCAR. Know exact connections among banks for the $3 trillion dollars of exposure yet CCAR teams did not see data as useful. Analysts want to control own data collection (siloing/turf).
  - Lessons in data collection learned from SNC not used in Y-14. Done independently.

Future

- Need to fully support growth of SNC-like programs.

- Effort at FHFA with National Mortgage Database to do this for residential mortgages.

- Y-14 has the potential to work
  – but only if regulators force banks to put resources into getting the data right
  – Need to also integrate examiners with movable targets into the system. Analysts alone sifting Y-14 data will never be enough.