

Rating Assignment Data

S. Institutions must capture all significant quantitative and qualitative factors used to assign the obligor and loss severity rating.

Assigning a rating to an obligor requires the systematic collection of various borrower characteristics as these factors are critical to validating the rating system. Obligor ratings are rated using various methods, as discussed in Chapter 1. Each of these methods presents different challenges for input collection. For example, in judgmental rating systems, the factors used in the ratings decision have not traditionally been explicitly recorded. For purposes of an IRB approach, institutions that use expert and constrained judgment must record these factors and deliver them to the data warehouse.

For loss severity estimates, institutions must record the basic structural characteristics of facilities and the factors used in developing the facility rating or LGD estimate. These often include the seniority of the credit, the amount and type of collateral, the most recent collateral valuation date and its fair value.

Institutions must also track any overrides of the obligor or loss severity rating. Tracking overrides separately allows risk managers to identify whether the outcome of such overrides suggests either problems with rating criteria, or an improper level of discretion in adjusting the ratings.

Example Data Elements

For illustrative purposes, the following section provides examples of the kinds of data elements institutions will collect under an IRB data maintenance framework.

General descriptive obligor and facility data

The data below could be contained within a loan record or derived from various sources within the data warehouse. Guarantor data requirements are the same as for the obligor.

Obligor/Guarantor Data

- General data: name, address, industry
- ID number (unique for all related parent/sub relationships)
 - Rating, date, and rater
 - PD percentage corresponding to rating

General Facility Characteristics

- Facility amounts: committed, outstanding
- Facility type: Term, revolver, bullet, amortizing, etc.

- Purpose: acquisition, expansion, liquidity, inventory, working capital
- Covenants
- Facility ID number
- Origination and maturity dates
- Last renewal date
- Obligor ID link
- Rating, date and rater
- LGD dollar amount or percentage
- EAD dollar amount or percentage

Rating Assignment Data

The data below provide an example of the categories and types of data that institutions must retain in order to continually validate and improve rating systems. These data items should tie directly to the documented criteria that the institution employs in assigning ratings, both qualitative and quantitative. For example, rating criteria often include ranges of leverage or cash flow for a particular obligor rating. In addition, qualitative factors, such as management effectiveness can be recorded in numeric form. For example, a 1 may equate to exceptionally strong management, and a 5 to very weak. The rating data elements collected should be complete enough so that others can review the relevant factors driving the rating decisions.

Quantitative Factors in Obligor Ratings

- Asset and sale size
- Key ratios used within rating criteria:
 - profitability,
 - cash flow,
 - leverage,
 - liquidity, and
 - other relevant factors.

Qualitative Factors in Obligor Ratings

- Quality of earnings and cash flow
- Management effectiveness, reliability
- Strategic direction, industry outlook, position
- Country factors and political risk
- Other relevant factors

External Factors in Obligor Ratings

- Public debt rating and trend
- External credit model score and trend

Rating Notations

- Flag for overrides or exceptions
- Authorized individual for changing rating

Key Facility Factors in LGD Ratings

- Seniority
- Collateral type: (cash, marketable securities, AR, stock, RE, etc.)
- Collateral value and valuation date
- Advance rates, LTV
- Industry

Geography

Rating Notations

- Flag for overrides or exceptions
- Authorized individual for changing rating

Final Disposition Data

Only recently have institutions begun to collect more complete data about a loan's disposition. Many institutions maintain subsidiary systems for their problem credits with details recorded, at times manually, on systems that were not linked with the institution's central loan or risk management systems. The unlinked data are a significant hindrance in developing reliable PD, LGD, and EAD estimates.

In advanced systems, the "grave" portion of obligor and exposure tracking is an essential component for producing and validating risk estimates and is an important feedback mechanism for adjusting and improving risk estimates over time. Essential data elements are outlined below.

Obligor/Guarantor

- Default date
- Circumstances of default (for example, nonaccrual, bankruptcy chapters 7–11, nonpayment)

Facility

- Outstandings at default
- Amounts undrawn and outstanding plus time series prior to and through default

Disposition

- Amounts recovered and dates (including source: cash, collateral, guarantor, etc.)
- Collection cost and dates
- Discount factors to determine economic cost of collection
- Final disposition (for example, restructuring or sale)
- Sales price, if applicable
- Accounting items (charge-offs to date, purchased discounts)

C. Data Element Functions

S. Data elements must be of sufficient depth, scope, and reliability to:

- Validate IRB system processes,
- Validate parameters,
- Refine the IRB system,
- Develop internal parameter estimates,
- Apply improvements historically,
- Calculate capital ratios,
- Produce internal and public reports, and
- Support risk management.

Validation and Refinement

The data elements collected by institutions must be capable of meeting