Alliance Bank's Feedback on BIS Second Consultation Document – Revisions to the Standardized Approach for Credit Risk

S/N	Alliance Bank's Feedback/Recommendation
1	<u>Para 52 suggests that property value to be maintained at the value measured at origination. Our understanding is, the only instance where property value is allowed to be increased is when "modifications to the property that unequivocally increase its value", else the property value is capped at the value measured at loan origination.</u> In Malaysia, a maximum tenor of 35 years is allowed for loans to finance the purchase of residential properties. As the existing Standardized Approach allows the value of collateral to be revised upwards, mortgage customers may obtain top up loans from the bank when the LTV is lower as a result of appreciated property value, say ten years after the loan origination. Disallowing use of the appreciated property value may lead to banks disallowing the loan top up which ultimately increases the LTV and capital requirement. This may deprive consumer from available financing with excess collateral value. Alternatively, the borrower may redeem the first loan and apply for a new loan, having to bear the additional fees for both loans, which is unnecessary. From the practical point of view, in addition to allowing modifications to be taken into account in LTC computation, when the appreciation in value of property is genuine, upward adjustment of property value for LTV computation should also be allowed. Under the global agenda of financial inclusion, capping the property value at loan origination will work against the efforts to ensure equal chances of house owners for financial inclusion. We urge the BIS to reconsider the decision to cap property value for LTV computation at the value measured at loan origination.
2	<u>Suggest including commercial and residential real estate (CRE and RRE) as eligible collateral.</u> We opine that the eligible collateral under Standardized Approach should be expanded to include CRE and RRE as eligible collateral. This is to narrow the divergence between the Standardized and the IRB Approaches where CRE and RRE are recognized as eligible collaterals for credit risk mitigation, in addition to the current list of eligible collateral. Based on our experience, financial collateral except cash in the same currency, are subject to vast variation in realisable value under economic distressed; some financial guarantees are subject to long litigations although all legal enforceability have been determined up front. In comparison, it is relatively easier to foreclose and recover from CRE and RRE based on perfected legal document and legal charges. We urge the BIS to consider including CRE and RRE as eligible collateral.