



Financial Engineering. Simplified.



Success Stories

How we helped an institution analyze its loan portfolio?

A leading lending institution in US was looking to overhaul its Loss Given Default (LGD) framework to comply with the new Basel II regulations. Lending portfolio was diverse with a range of counterparties, loan seniority, collateral types and exposures. A new framework which can improve the accuracy of predicted losses vis-à-vis actual losses had to be validated and improvements suggested.



Challenges

- ▶ The lending portfolio was diverse with a range of counterparties, loan seniority, collateral types and exposures
- ▶ Prediction power of the framework was extremely low and overly conservative



Our Solution

- ▶ Revised objective criteria for assessing health of collateral types
- ▶ Incorporated important loan parameters in the existing framework



Benefits

- ▶ Enhanced prediction capability
- ▶ Reduction in regulatory capital allocation
- ▶ Better insights into factors that have significant effect on LGD