

Box 3

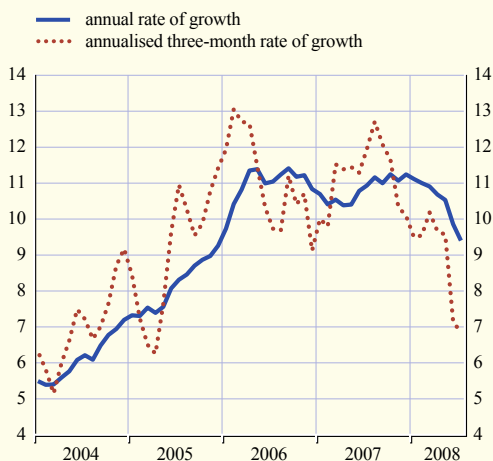
THE IMPACT OF TRADITIONAL TRUE-SALE SECURITISATION ON RECENT MFI LOAN DEVELOPMENTS

During the ongoing financial market tensions, the analysis of short-term developments in MFI loans to the private sector has received increased attention. An evaluation of whether or not the banking system can provide sufficient financing to households and non-financial corporations has proved essential in assessing macroeconomic prospects. One crucial element of such an analysis is to distinguish between, on the one hand, the fundamental factors driving loan supply or demand and, on the other hand, short-term developments in the loan data that result from temporary factors, such as specific loan securitisation¹ transactions conducted by euro area MFIs. In order to shed light on recent MFI loan developments, this box updates the estimates provided in a number of previous Monthly Bulletin boxes as regards the impact of traditional true-sale securitisation on MFI loan growth.²

- 1 For a discussion of loan origination and securitisation, see the article entitled “Securitisation in the euro area” in the February 2008 issue of the Monthly Bulletin.
- 2 For previous assessments of the impact of traditional true-sale securitisation on loan growth, see: the box entitled “The impact of MFI loan securitisation on monetary analysis in the euro area” in the September 2005 issue of the Monthly Bulletin; Box 2 in the article entitled “Securitisation in the euro area” in the February 2008 issue of the Monthly Bulletin; and the box entitled “The importance of accounting standards for interpreting MFI loan statistics” in the March 2008 issue of the Monthly Bulletin.

Chart A MFI loans to the private sector

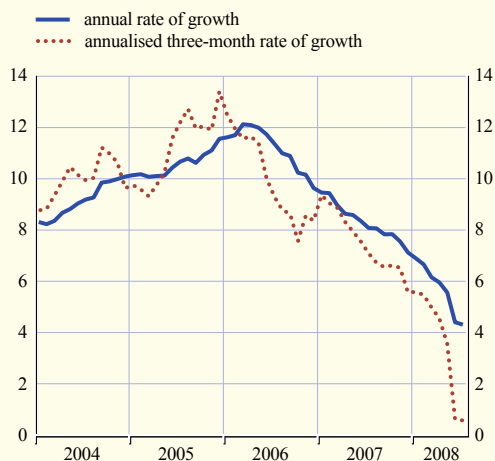
(annual percentage changes; adjusted for seasonal effects)



Sources: ECB and ECB calculations.

Chart B MFI lending to households for house purchase

(annual percentage changes; adjusted for seasonal effects)



Sources: ECB and ECB calculations.

True-sale securitisation and MFI loan statistics

At the euro area level, the dynamics of total loans to the private sector have moderated since mid-2007, broadly in line with what would have been expected on the basis of developments in the conventional economic and financial determinants of loan demand. However, towards the end of the second quarter of 2008 flows of MFI loans to the private sector – and in particular loans to households for house purchase – fell sharply (see Charts A and B), in a manner that was difficult to explain solely in terms of fundamental factors.

In order to assess whether the observed declines represented a change in the behaviour of banks and/or borrowers or merely reflected technical factors, an analysis of the impact of securitisation – and in particular “true-sale” securitisation – is required. Traditional true-sale securitisation is associated with the sale of loans by MFIs to non-MFIs, with these loans then being removed from the MFIs’ balance sheets. In recent years such securitisation has become an important element of banks’ business models, allowing them to share credit risk and create liquid instruments out of normally illiquid loans. However, such securitisation can distort the information contained in MFI loan statistics, since loans to the private sector that have been originated by MFIs are taken out of the MFI loan data once they are removed from the MFIs’ balance sheets.

As a result, in interpreting the MFI loan series, it is important to understand whether or not the relevant accounting rules allowed the MFIs that originally granted the loans to remove them from their balance sheets (formally, to “derecognise” them) in the course of securitisation transactions.

These accounting rules differ across euro area countries. As a result, it is often the nature of the accounting rules applied – rather than the type of economic transaction – that determines whether or not a certain securitisation transaction qualifies as traditional true-sale securitisation,

and thus whether or not it affects the MFI loan statistics.³ Consequently, the loan data need to be interpreted carefully if meaningful information is to be extracted for monetary policy purposes. In order to reflect the importance of the accounting rules over the type of economic transaction, the following assessment will refer to “derecognised” rather than “securitised” loans.

“Retained” securitisation reduced MFI loans for house purchase in the second quarter of 2008

Estimates using information available at the ECB allow a rough assessment of the impact of loan derecognition on MFI loan statistics.⁴ Such estimates reveal that the downward impact that derecognised loans had on MFI loans to the private sector between April and June 2008 was around €50 billion on a seasonally adjusted basis. This is the strongest effect observed over the available estimation period, which dates back to 1999.

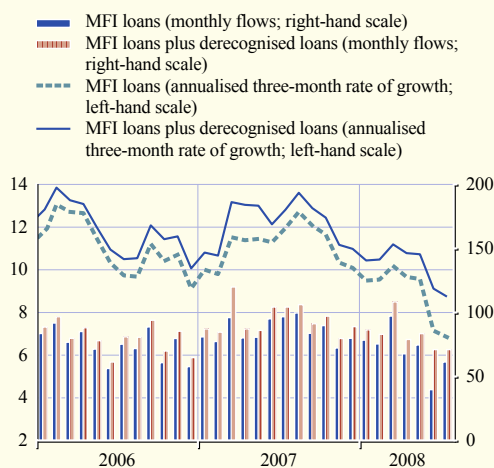
At first glance, the observation of such intense loan derecognition owing to loan securitisation during the ongoing financial market tensions appears to be at odds with the low levels of activity seen in the markets in which the instruments created by securitisation are placed. However, traditional true-sale securitisation transactions in 2008 have largely taken the form of “retained” securitisation by MFIs. In other words, rather than selling them in the market or placing them with investors privately, MFIs are themselves purchasing the securities created during the traditional true-sale securitisation process.

3 For example, the application of the International Financial Reporting Standards (specifically International Accounting Standard No 39) in a number of euro area countries, combined with the application of certain supervisory policies in particular EU Member States where the “originate and distribute” banking model has become increasingly popular in recent years, has largely prevented credit institutions from removing loans from their balance sheets after a sale to a special-purpose vehicle. For a more detailed description, see the box entitled “The importance of accounting standards for interpreting MFI loan statistics” in the March 2008 issue of the Monthly Bulletin.

4 Improved and harmonised statistics on MFI loan securitisation are currently being developed and are expected to become available in 2010.

Chart C MFI loans to the private sector

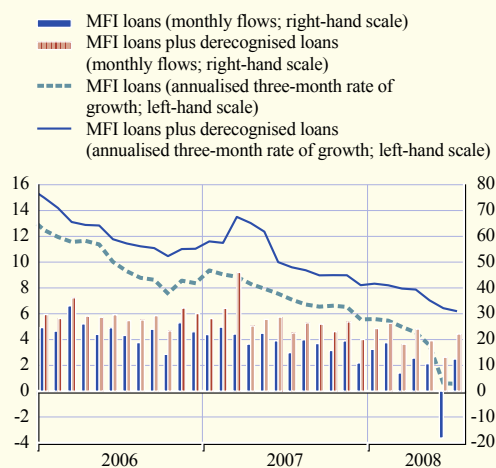
(annual percentage changes; flows in EUR billions; adjusted for seasonal effects)



Sources: ECB and ECB estimates.

Chart D MFI lending to households for house purchase

(annual percentage changes; flows in EUR billions; adjusted for seasonal effects)



Sources: ECB and ECB estimates.

Although the available information on derecognised loans does not allow the underlying loans to be broken down by sector or by purpose, it is likely that most of the derecognised loans are loans to households for house purchase. The estimate of derecognised loans can be used to adjust the MFI loan series – particularly MFI lending to households for house purchase – for the impact of derecognised loans. For example, by summing the estimate of derecognised loans and the flows of MFI loans for house purchase, one can develop a better picture of the flow of loans originated by MFIs for house purchase.

In order to illustrate the impact of loan derecognition on short-term developments in MFI loans, Chart C shows monthly flows and the annualised three-month growth rate for MFI loans to the private sector. Chart D shows the same series for MFI loans to households for house purchase. In both cases, a comparison is made between the reported data and data corrected for the estimated impact of loan derecognition.

These charts provide two clear messages. First, a moderation can be seen in both MFI loans to the private sector and MFI loans to households for house purchase, independently of any correction reflecting the derecognition of loans and their removal from MFI balance sheets. Second, although the official MFI loan series fell sharply towards the end of the second quarter of 2008, the pace of moderation seen in recent months does not appear disorderly or exceptional once a correction has been made for the impact of loan derecognition. In mid-2008 the difference between the corrected and uncorrected annualised three-month rates of growth reached the highest level seen since 1999 for both loans to the private sector and loans for house purchase, with a difference of around 2 percentage points for loans to the private sector and a difference of around 6 percentage points for loans for house purchase.

Correcting the official loan series for the impact of loan derecognition thus has a significant effect on the data and their interpretation. Once such a correction has been made, the growth of MFI loans (and loans for house purchase in particular) appears to continue to moderate in line with its traditional determinants. Consequently, the sharp fall in loan growth in June does not give cause for concern regarding the supply of bank credit, as an initial interpretation of the data might otherwise imply.