



BANK OF ENGLAND

News release

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Bank of England/European Central Bank Discussion Paper on Securitisation and Bank of England Discussion Paper on Credit Data

The Bank is today publishing two Discussion Papers, one in conjunction with the European Central Bank on the securitisation market, and the second on improving the availability of credit data. Both of the Discussion Papers we are putting out today – in different, though complementary ways – aim to explore ways through which we can improve the diversity and robustness of credit supply in practice, in line with the Financial Policy Committee’s medium-term priority to improve the diversity and robustness of market-based finance and credit in the United Kingdom.

The financial crisis led to a severe tightening in credit conditions for all borrowers. The impact on businesses was particularly severe with lending to non-financial corporate borrowers today 14% lower than its pre-crisis peak. Lending to businesses is highly concentrated, with the four largest banks holding an SME banking market share of around 80%. Had the market been more diverse, other lenders may have been able to fill the void left by the large banks when they decreased their lending.

The securitisation Discussion Paper explains how a well-functioning securitisation market can deliver a variety of benefits to issuers and investors, whilst also supporting the provision of credit through indirect channels. Securitisation can support greater funding diversification, free up capital to allow banks to extend new credit to the real economy, and provide non-bank investors, such as insurance companies and pension funds, with access to a broader pool of assets.

Despite these benefits, present levels of activity in securitisation markets in the EU are low. This may reflect a range of impediments considered by the Discussion Paper, including: stigma attached to the market following the prominent role complicated securitisation structures and poorly underwritten loans played in contributing to the financial crisis; regulatory treatment that can be perceived as conservative relative to other assets and as contributing to uncertainty; a lack of standardisation across the EU, as well as a lack of data on to assess the performance of some asset-backed securities.

In order to remove these impediments and realise the benefits of securitisation, the Discussion Paper considers a range of options that authorities could support to revitalise the securitisation market. These include developing high-level principles for ‘qualifying securitisations’ and harmonising securitisation standards across the EU.

Reform of the market relies on a number of steps. First, the product needs to be simple and transparent to investors. Second, banks need to have incentives to encourage them to originate and monitor the loans that they make prudently. Third, investors need to have access to a sufficient history of data to understand how the loans that underlie a securitisation will perform across a wide variety of circumstances.

The credit data Discussion Paper considers how improving the availability of credit data might deliver benefits for the provision of credit through both direct channels, such as bank lending, and indirect channels, including securitisation. The availability of UK credit data could be improved by broadening access to UK credit reporting systems and enhancing available data, by making information available from publicly-owned sources.

Where access to credit data is constrained it can create a barrier to entry and expansion, so improving the availability of credit data should support more informed credit decisions by lenders and enhance competition, which should in turn improve the availability and stability of credit.

Access to good credit data would also greatly assist the work of the authorities. For example, it could inform judgement over the use of macroprudential tools, provide input for bank stress tests, and help support more informed policy decisions across the authorities more broadly. There are a number of risks that may arise from seeking to make data more widely available which would need to be managed, but to the extent that the benefits outweigh the costs, the Discussion Paper outlines several delivery options. These include solutions that involve the credit reference agencies or the possible establishment of a Central Credit Register.

The Bank would welcome comments from interested parties on all aspects of these Discussion Papers as it aims to find ways that credit markets can be made to function more effectively for the benefit of the UK economy.

Key Resources

 [Joint Bank of England/ECB Discussion Paper: The case for a better functioning securitisation market in the European Union](#) (587KB)

 [Discussion Paper: Should the availability of UK credit data be improved?](#) (2MB)