CREFC Europe response to Bank of England discussion paper of May 2014: *Should the availability of UK credit data be improved?*

CREFC Europe is grateful for the opportunity to comment on this discussion paper (the **DP**).

CREFC Europe is a trade association promoting a healthy, sustainable and successful commercial real estate (**CRE**) debt market in Europe. Our core membership includes lenders and intermediaries who help connect capital seeking the risk and returns of CRE debt with real estate firms seeking finance. We seek constructive and effective dialogue with non-originating investors, borrowers and regulators in promoting CRE debt markets that support the real economy without compromising financial stability.

We have a particular interest in transparency and data quality in relation to CRE debt, and are among the financial supporters of both the De Montfort University research into UK CRE debt and a similar project that was launched recently to shed light on Germany's CRE debt market. Our chief executive is a member of the Real Estate Finance Group (**REFG**) and principal author of its report, *A Vision for Real Estate Finance in the UK*, published in May 2014 (the **Vision Report**).[1] A database for all UK CRE loans is the first recommendation in that report, which seeks to envision a healthier CRE debt market posing lower risk to financial stability.

We note that the DP mostly concentrates on informational issues affecting SME credit markets. Our particular interest is in the quite separate, in our view, exploration of informational issues in CRE credit markets; that is the exclusive focus of this submission. We believe that better quality data and improved transparency in CRE credit markets would support both more effective macro-prudential supervision, and better market behaviours (ranging from more consistent risk management and monitoring to easier access for new entrants).

We recommend that the proposals relating to UK CRE lending markets be taken forward in consultation with the industry, regardless of what happens with the SME related proposals.

An executive summary of our key submissions is set out below. Our detailed responses to specific sections of, and some of the questions posed by, the DP are set out in **Appendix 1**. **Appendix 2** contains a short paper about where work to develop a CRE debt reporting template might start.

Executive summary

CRE, CRE debt, the economy and financial stability. CRE is important to the real economy and structurally reliant for part of its funding on the debt markets. The relationship between the credit cycle and the property cycle (traditionally aggravated by the regulatory cycle) gives rise to feedback loops and risks to financial stability. It is perhaps surprising, therefore, that CRE debt markets are as opaque as they are. For all the well-publicised problems of commercial mortgage backed securities (**CMBS**) during the crisis, it is only for that small, securitised part of the CRE debt market that relatively good quality, granular bond, loan and property level data is available. That transparency is at least partly thanks to the existence of an industry standard data capture mechanism, the European Investor Reporting Package or **E-IRP** (as to which see further **Appendix 2**). For the wider CRE debt market, some aggregated data is collected by central banks and regulators and the De Montfort University team regularly publish their research, but none of those sources are susceptible to analysis and interrogation, convincingly present a robust and coherent picture of a precise universe, or allow effective and consistent tracking of important data points over time.

[1] The Vision Report can be found here: https://www.ipf.org.uk/home/vision_for_real_estate_finance/default.aspx.

CRE debt market characteristics. Despite the existing informational deficit, we do know that UK (and European) CRE debt markets are traditionally structurally fragile and highly concentrated in the banking system – and that they have been evolving and diversifying rapidly in recent years. Those features all suggest that reliable access to better quality data would be very valuable – both for regulators and policymakers, and for existing and prospective market participants.

Vision. As a general matter, we agree with the analysis and related recommendation in the Vision Report and support the creation of a CRE loan database pursuant to that recommendation.

International dimension. That report is of course focused on the UK, but while certain aspects of the UK CRE debt market may present challenges that are less apparent or serious in other European markets, the knowledge gap is if anything more acute in most other European markets. Accordingly, we would like to see the creation of a UK CRE loans database as the beginning of a process for industry participants and regulators to develop something similar at the European level (and beyond). CRE capital flows (both equity and debt) are highly international, so a coordinated, if not common, approach to data transparency internationally would make sense.

SME debt and CRE debt. CRE debt is a specific, specialised market – and while there is of course an overlap with SME debt, the policy objectives, risks and motivations of "improving credit data" in those two markets are fundamentally different, and specialist industry expertise is essential. One particularly important difference is that, while the ability to assess a borrower's credit may be critical in the SME lending context, it is not especially important in the CRE lending context. The performance of a CRE loan depends primarily on two factors:

- the rental cash flows, which in turn depend largely on the lease structure and the credit strength of the borrower's tenants, and

- the value of the real estate on which the loan is secured, as repayment of the loan can depend on that at maturity or on enforcement.

That is not to say that the borrower of a CRE loan is not important – rather that the borrower's strategy, asset management skills and reputation matter more than creditworthiness per se.

Getting a CRE loans database right. On the CRE side, we anticipate that there should be a good overlap between (a) the data that lenders do (or at least can) already routinely collect from borrowers and other internal and external sources, (b) the data that responsible lenders should collect for internal risk and broader management purposes, and (c) the data to which regulators (and actual and prospective market participants and observers) might reasonably wish to have access. We suspect therefore that the challenge will be not to collect more data, but rather to identify the data that should be captured on a mandatory and standardised basis, and to find ways to provide access to it with as much granularity as possible while fully protecting the fundamentally private and confidential nature of the CRE debt market. However, those are educated guesses, and given the considerable commercial sensitivity around these proposals, the industry (borrowers as well as lenders and data specialists) should have every opportunity to participate fully and actively in their development.

Starting point. We would recommend E-IRP (mentioned above, and described briefly in Appendix 2) as a natural starting point for definitions and data templates.

A consultative approach that taps the expertise and engages the enthusiasm in the CRE and CRE finance industry is vital if a CRE loans database is to be introduced successfully. We would be delighted to participate in such a process, because we believe that achieving that outcome is very important to the future health and wellbeing of the market in which our members operate.

Please contact me in the first instance should you have any questions in relation to our submission.

Yours sincerely

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Appendix 1: Detailed responses to specific questions raised by the DP

Section 2 – Motivation:
General comments

We agree with the objectives and discussion in this section of the DP. From a CRE debt perspective, we believe the objective of supporting more informed policymaking is particularly important given the systemic risks that result from the feedback loops between CRE and credit cycles.

In that context, we would particularly emphasise the importance of adequate expertise and resource being available to the regulator if the regulatory benefits of better credit information are to be secured. We support the way the Vision Report proposes a CRE loans database as part of a package of recommendations focused on the quality of information, analysis and expertise. Information is necessary but not sufficient on its own to support better, more informed policymaking.

Comments on Box 1 (International experience of different credit reporting models)

The sort of loans database that we would recommend in the CRE debt context (essentially as proposed in the Vision Report) has more in common with the CCR model than the PCB/CRA model discussed in Box 1, but it is fundamentally different from both.

The essential difference is that the CRE loans database is not intended to support credit checks against individual business borrowers, but rather to provide robust, comparable, granular data that can be interrogated and analysed by market participants, investors, analysts, academics and regulators seeking to understand market composition, trends and cycles. The regulator should probably have unrestricted access to the data, but for all other users, access should be only to data that is anonymised by being aggregated to the extent necessary to preserve the confidentiality of individual transactions, parties and assets. Such users should have the maximum flexibility to manipulate and interrogate the data that is compatible with effectively protecting confidentiality.

A CRE loans database that excludes low value loans (such as some CCRs might do) would create a significant regulatory blind spot, because low value loans are, collectively, important both for financial regulators and from a broader policy perspective. Another reason for including low value CRE loans is that doing so could support a degree of standardisation in that market (in terms of defined terms used, documentation and reporting requirements), in turn facilitating greater indirect and secondary market investment and liquidity.

Comments on Box 2 (What information is typically held in a UK credit reference agency?)

As noted in our comments on Box 1, we see a fundamental difference between the role and purpose of CRAs and the role and purpose of a CRE loans database such as is proposed in the Vision Report. In particular, the ability to assess a borrower's credit, while very important in the SME lending context, is not very important in the CRE lending context. The performance of a CRE loan depends primarily on two factors:

- the rental cash flows, which in turn depend principally on the lease structure and the credit strength of the borrower's tenants, and
- the value of the real estate on which the loan is secured, as repayment of the loan can depend on that at maturity or on enforcement.

The borrower of a CRE loan is of course very important – but in less objectively quantifiable ways than credit history and creditworthiness. It is the borrower's strategy, asset management skills and reputation, the qualities that can help maintain rental income and property value in challenging circumstances, that really matter.

Accordingly, we would not support a CRE loans database that made individual borrower information available to third parties. The CRE lending market (including new entrants and indirect investors, and including where the borrowers are SMEs) does not need such a database. The sort of data that a CRE loans database should collect is quite different from that identified in Table 2, and would be compatible with maintaining commercial confidentiality for individual lenders, borrowers, loans and real estate assets.

Section 3 – Improving the availability of credit data to support the provision of credit: General comments

As noted above, in our view the recommendation for "more granular and timely information about CRE loans" should not be construed as a suggestion that information about individual loans should be made available to third parties. In the CRE context, the aim is not to enable lenders "to make more informed lending decisions…with respect to individual borrowers". We are not aware of any problematic "lack of information about the creditworthiness" of borrowers. Individual CRE lending decisions are a matter for case-by-case due diligence and a range of subjective and objective assessments regarding the asset, the leasing structure, the tenants and the asset management strategy of the borrower.

The focus of a CRE loans database should rather be on collating robust, comparable, anonymised data to help elucidate the dynamics of the market and particular segments of it. Better publicly available and publicly scrutinised market data would support more cycle-aware lending practices and risk management at the institutional, as well as market, level.

We have three further comments prompted by the discussion in this section of the DP:

(1) The DP notes that the use of the IRB approach by incumbent banks is likely to advantage them in SME lending as compared to challenger banks, whose lack of historical data means they are more likely to be using the standardised approach. It further notes that publicly available pooled data may help challenger banks develop IRB models more quickly.

The CRE debt market has been diversifying rapidly since the crisis, with a range of different lenders (both banks and non banks) subject to very different capital and broader regulatory regimes. We believe that a CRE loans database could help promote the development of a more coherent and informed regulatory framework, so differentiated regulatory treatment is either deliberate or avoided, with the consequences (either way) better understood, and undesirable consequences avoided. To that end, the database must also capture information about lender types. The creation of a pooled data source for CRE lending could also make an enormous contribution to better risk and rating models across the market. Eventually, better alignment between regulatory and economic risk models may become possible.

(2) The DP notes that better information may promote greater commoditisation and standardisation, in turn improving transparency for borrowers while also facilitating securitisation.

We agree, and think this point is relevant in the CRE debt context as well, as elaborated in our response to the draft recommendations of the REFG in late 2013.[2] We would emphasise that even the direct CRE lending market should not be thought of as solely a banking market.

[2] That response is available at https://www.crefc.org/uploadedFiles/CMSA_Site_Home/Global/CMSA-Europe/Committees/Vision_Working_Group/Response_to_A_Vision_for_REF_in_the_UK_171213.pdf.

(3) The DP states that "there are already well-established securitisation markets for mortgages and commercial property loans".

In fact, the securitisation market for CRE loans (the CMBS market) is in a somewhat precarious position at present. Partly that is a result of commercial factors: a small number of poorly performing pre-crisis issues; deficiencies in transaction documentation and structures; and the fact that poor quality underwriting generally as the CRE market approached its peak was only partly mitigated when loans were securitised. The industry has been seeking to address those challenges, including through initiatives such as CREFC Europe's work on "CMBS 2.0".[3]

However, another reason is the regulatory assault on securitisation since the crisis. In the last couple of years, regulatory authorities have begun a very welcome move to rehabilitate securitisation, recognising the contribution market-based finance can make both to the real economy and to financial stability. Unfortunately, however, there is so far little sign that CMBS (or, therefore, the wider CRE debt and CRE markets) will benefit from that thaw, owing to the way regulators seem inclined to define "high quality" securitisation.

Q1. Do respondents believe that there are significant problems with information availability in markets other than CRE and SME lending in the United Kingdom?

We do not have a view on this question.

Comments on Box 3 (The UK commercial real estate lending market)

We endorse the analysis and proposals set out in the Vision Report so far as relevant to its recommendation for a CRE loans database. Subject to the comments here and in our responses to Q2 and Q3 below, we agree with the discussion of the UK CRE lending market in Box 3.

It is important to recognise (as noted in Box 3) that "the informational requirements differ in some ways to those of other types of lending". That is not only because of the importance of property collateral, however; it is also because the challenges and the objectives are different. The informational transparency from which the CRE debt market would most benefit does not relate to credit referencing individual borrowers, but rather to the creation of a single source of robust and reliable data about market composition, structure and trends.

In relation to the discussion of advantages and risks associated with CRE loan data sharing, we have the following comments.

- The value in micro and macro prudential risk management of robust and timely CRE debt market information cannot be overstated. As is noted in Box 3, the financial crisis demonstrated the lack of transparency about the existing stock of CRE debt and the structure, extent and distribution of risk associated with it. It took a long time for a picture to emerge even within some institutions, let alone for the regulator (or indeed for other market participants and observers). CRE debt is sufficiently important to the economy and to financial stability that the case for greater transparency is strong.

- As mentioned above, we do not think the loans database should allow new lenders "access to information on historical credit performance" relating to individual borrowers. The market does not suffer from a deficit of that kind of information (which is not critical to CRE lending decisions). We would nevertheless expect an appropriately designed CRE loans database to facilitate greater

[3] See http://www.crefc.org/uploadedFiles/CMSA_Site_Home/Global/CMSA-Europe/Committees/European_CMBS_20_Committee/Market_Principles_for_Issuing_European_CMBS2.pdf.

standardisation and through that growth in indirect CRE debt investment, diversification of supply and products generally, and a more liquid secondary market in CRE debt.

- As regards risks, we suspect that the data that would have value for regulatory purposes would almost certainly fall within what is, or should be, "routinely collected by banks for their own internal risk management".[4]

- The cost implications of a broadly/ultimately mandatory universal UK CRE loans database plainly have to be considered carefully with a view to ensuring that the costs are justified and minimised. Active industry involvement in all aspects of its design is therefore very important. However, once in place, an agreed, standardised data dictionary and reporting framework should operate to reduce, rather than increase, costs for many businesses (borrowers, fund managers, loan servicers, etc.) that may currently be reporting to different lenders or investors (or indeed regulators) on overlapping but different terms. Further, the investment some lenders may need to make in data management systems should enable them to make better use of their own data.

Q2. What are respondents' views on our assessment of the key information required for CRE lending?

Generally we agree with the discussion and analysis in the DP, subject to the following points.

There are important omissions from the summary of key information suggested in Box 3.

- Perhaps most importantly, information relating to the lender should be collected, to allow the regulator (and others) to understand market composition and to interrogate the database to determine how different types of lender might be exposed to different parts of the CRE sector (for example, by geography, loan size, LTV, ICR/DSCR or other financial characteristics, type of borrower, CRE sub-sector, etc.).

- Given the aim of the CRE loans database to support better market analysis and risk management, another area it should cover is hedging associated with any CRE loan. Large out-of-the-money positions on interest rate swaps were a significant barrier to loan restructurings since the crisis. It would be useful to be able to monitor both how risks capable of being hedged are dealt with in the CRE finance market, and what risks might flow from market practices from time to time.

- Building on the last two points, the database should be able to capture and understand the debt-related capital structure in full: the existence of junior or mezzanine debt, whether the loan is syndicated or securitised, etc. It should avoid double-counting, but be able to connect exposures relating to the same asset (as it should exposures relating to the same borrower or sponsor).[5]

We would also make the following additional points.

- As mentioned elsewhere, we do not agree that data capable of being identified as relating to an individual CRE borrower or sponsor should be disclosed to third parties through the database. In the CRE debt context, the value of the database is not to facilitate credit checks (and it should not capture data for those purposes), so borrower information captured by the database should only

[4] Indeed, this (like the CRE loans database proposal more generally) should be relevant not only for banks but for all CRE lenders. We are talking about information collected when the loan is advanced in relation to loan terms, hedging, cross-collateral or guarantees, other tranches of debt, the real estate collateral, lease structure and terms and tenants. Lenders would typically monitor such matters along with payment history throughout the life of the loan.

[5] We are aware of products already on the market which do this.

be visible (other than to the regulator) in aggregated and anonymised form.

- More generally, we believe that the database should only seek to capture objective, factual data. Its value could be compromised by the inclusion of subjective, judgment-based information such as regarding the quality of assets or (other than through external ratings where available) borrowers. The cost of data provision would also be higher if it included subjective judgments. We read the key information suggested in Box 3 as consistent with this.

- That is not to suggest that subjective analysis is unimportant – subjective judgments are an extremely important part of the CRE lender's skillset. Lending propositions that may look identical in objective terms may, once subjective considerations are taken into account represent very different risks. The regulator, in particular, must not lose sight of that fact in the excitement of gaining access to better quality objective data.

- The information required for loans relating to development or transitional CRE assets has a good overlap with that for stabilised investment property loans, but it is not identical. There may be limited or no current cash flows, and it is necessary to capture information relating for example to the contractor's credit rating, phase timings and dependencies and pre-let or pre-sale agreements. While the main reporting template would need to be adapted somewhat for such loans, they should be captured by a CRE loans database.[6] This is, again, information that a lender against such assets should be routinely collecting; and insight into development finance markets is important, because financially destabilising property crashes can be (and have been) driven by excessive property development.

Q3. What are respondents' views on our assessment of the availability and importance of information in the UK CRE lending market?

We agree with your assessment, and with the more detailed analysis set out in the Vision Report.

Q4. Would establishing a comprehensive business register in the United Kingdom benefit the provision of credit?

We do not have a view on this question, other than to note that this is not a material issue in the CRE lending market.

Q5. Could making information available from publicly-owned data sources deliver similar benefits? If so, what sources would be especially useful; and what safeguards and/or conditions should be imposed?

We do not have a view on this question, other than to note that the kind of data that should be captured by a CRE loans database is not likely to be available from publicly-owned data sources.

Q6. What are respondents' views on our assessment of the key information required for SME lending?

We do not have a view on this question, other than to note that where CRE and SME lending markets overlap, the key informational challenges and market transparency issues are those relevant for CRE (as explained in our comments on Box 2 and elsewhere in this submission).

[6] While the E-IRP is not designed to cover such loans (as non-income producing assets are not generally suitable for securitisation), we are aware of products already on the market which would cover them.

Q7. What are respondents' views on our assessment of the availability and importance of information in the UK SME lending market?
We do not have a view on this question other than as noted elsewhere in this submission.
Q8. What are respondents' views on whether improving and widening access to credit data could deliver the benefits suggested for the origination of credit? Are there any other types of data that, if made available, could support the provision of credit?
As mentioned above, the objectives, and therefore the focus and detail, of a CRE loans database are quite different from those relevant to SME finance. On the CRE side, we believe that the sort of database recommended by the REFG should improve diversity, and thus resilience, in the CRE debt market. We do not have anything to suggest in terms of other types of data, other than as discussed in the Vision Report and elsewhere in this submission.
Q9. What are respondents' views about widening access to credit information to support other purposes, such as insurance?
We do not have a view on this question.
Q10. What are respondents' views on credit information being made available to regulatory authorities for the purposes suggested? Could such an action deliver the benefits suggested for policymaking?
Yes. We generally agree with the outline of the policy usefulness of better credit data, noting always the differences between the proposals for SME and CRE lending markets. It is a central objective of the CRE loans database recommended by the REFG to facilitate a more automated, governor-based regulatory model that is based on good quality analysis of objective data and less reliant on intervention judgments. Such a database could also facilitate the development of robust and credible risk models, enabling better alignment of regulatory capital and economic risk than currently or in the past. As regards the international dimension of these proposals, besides the potential information exchange opportunities they might unlock, we would see a UK CRE loans database as providing a model for CRE data collection internationally. The UK has an opportunity to develop expertise in relation to CRE lending data from which other countries could learn, and an evolving international standard could deliver significant benefits given the importance of cross-border capital flows in (equity and debt) CRE markets.
Q11. What are respondents' views on summary credit information being made available to wider Government and the general public? Could such an action lead to more informed policymaking and public debate?
It is an essential feature of the CRE loans database contemplated by the Vision Report that there should be public access (including for Government departments) to data that is as granular as possible subject to the overriding need to preserve confidentiality for individual lenders, borrowers and transactions. We believe that would deliver many benefits, including more informed policymaking and public debate. We would however emphasise once again the importance of relevant expertise and analytical capability for those seeking to use the data (including the fact that objective data captured by the database is only part of the story in a lending market where subjective factors are also very important).

Q12. How material do respondents believe the risks considered in this Discussion Paper are? And are there any potentially significant risks that have not been considered in this Discussion Paper?
Most of the risks identified in the DP appear potentially relevant in the context of the proposals for the SME lending market. They are unlikely to be material in relation to the sort of mandatory, universal reporting of specified data to a CRE loans database recommended by the REFG and supported by CREFC Europe. The issues that we believe need to be considered carefully are identified and discussed in the Vision Report. Cost plainly is a real issue: a comprehensive CRE loans database cannot be operated for nothing, and there will undoubtedly be costs associated with the collection and submission of data by market participants – borrowers as well as lenders. However: • the data captured by the database should not diverge materially from the sort of data a responsible lender should collect and monitor in any event, and if reporting requirements apply only to objective, factual data, the cost of collection and submission should be minimised; • most CRE loans include requirements for data provision by borrowers, and as the precise requirements vary from loan to loan, there is scope for simplification and cost savings through the creation of a single standardised approach (provided it is developed in consultation with the industry). It would however be necessary to ensure CRE borrowers understand the proposals, the reasoning behind them and their intended benefits; • some lenders may face significant upfront investment costs if their information systems are not able to cope with the proposed reporting regime – but one might argue that in such cases the investment should be made in any event, and the reporting requirement is a useful stimulus for it to happen. In any event, data management both for internal purposes and to feed the database should become more effective and more efficient once that investment is made; • the cost of operating the database on an ongoing basis could be at least partly offset by charging anyone wishing to access the (duly anonymised) data.
Q13. What do respondents think would be the most appropriate model for delivering the improvements set out in this Discussion Paper? Who should operate it and how would it interact with the current range of information providers?
As mentioned elsewhere, the aims, design and detail of improved transparency in CRE lending markets are quite different from those relating to the SME lending market. In particular, there is no individual borrower credit reference component to the CRE proposals. The CRA-type model is accordingly not appropriate. We do not see the CRE loans database being operated as a CCR either – it has more in common with the CCR model, but it is different from that too. We would tentatively envisage a database operated by a commercial organisation as a piece of market infrastructure, overseen by a governance structure involving both the regulator and representatives from across the CRE industry. That should include both data contributors (borrowers and lenders) and data users (analysts, academics, debt investors and data specialists). The database operator should not be able to gain any monopolistic advantage by virtue of its access to the data. The experience of the European Central Bank's Data Warehouse suggests there may be value in using a firm with practical subject matter expertise rather than a pure database specialist (subject to reliable protection of anonymity). Anyone (including the database operator) wishing to use the data, whether for their own benefit or to provide services to others, should have equal access. Fees could be charged for access to support the cost of operating the database.

There are existing precedents developed by the industry, both for data reporting templates and for data collection platforms, which should provide an excellent starting point for developing an appropriate specification. The most established and widely used standard (which has also served as a starting point for regulatory reporting for CMBS) is the E-IRP, discussed in Appendix 2.
Q14. What are respondents' views about the likely costs associated with each of the possible delivery options considered in this Discussion Paper?
Please see our responses to earlier questions.
Q15. If a solution were delivered through existing CRAs, what improvements, if any, would need to be made to their existing governance and safeguards?
The CRA model is not appropriate in the CRE context. Please see our responses to earlier questions.
Q16. Were a solution to be delivered through a central credit database, what do respondents think would be the most appropriate governance model for the database? And, what safeguards would be required?
Please see earlier responses, in particular to Q13, and the Vision Report.
Comments on Box 5 (Scope and coverage of a credit register)
As noted above, we support the development of a CRE loans database along the lines envisaged by the REFG, as a new kind of database with certain features of a CCR, but fundamentally different. Please see our responses to earlier questions for our views on the breadth, depth and coverage that a CRE loans database should have. We would, once again, also refer you to the Vision Report for more detailed discussion.[7]
Q17. Which exposures do respondents think should be included in any UK central credit database, were one to be built?
Please see our comments on Box 5 above.
Q18. Do respondents think that, if built, a UK central credit database ought to collect broader data than solely that pertaining to exposures? If so, why?
Please see our comments on Box 5 above.
19. Were one to be build, which institutions do respondents think should be required to report to a UK central credit database?
Please see our comments on Box 5 above.

[7] If the decision were made to address the transparency issues of the CRE lending market through the creation of a CCR, those views would still hold, *mutatis mutandis*.

Appendix 2: The European Investor Reporting Package (*E-IRP*) as a potential starting point for a CRE loans database

What is the purpose of the E-IRP?

The purpose of the E-IRP (and of its earlier and better developed US equivalent, the **IRP**) is to provide a standardised template to facilitate the consistent transfer of data between commercial real estate (**CRE**) loan market participants. It caters for any combination of the bond, loan and property levels for the CRE loan market, capturing information at inception and on a periodic basis. It enables investors, particularly in commercial mortgage backed securities (**CMBS**), to receive standard reporting to support their on-going surveillance needs, facilitating greater liquidity in the secondary market for the bonds.

What was the origin of the E-IRP?

The original IRP was developed in the US in the 1990s by the CMBS industry[8] because investors, bankers and loan servicers needed access to comparable data across the burgeoning CMBS universe, regardless of the identity of the issuer, originator or loan servicer. Prior to that, no standard had existed for any CRE product. The concept was to promote liquidity and growth of the market by improving its transparency. The package is kept under constant review, undergoing numerous modifications and enhancements as the CMBS and broader lending markets have evolved and investor needs have grown more sophisticated.

The E-IRP, the European version of the IRP, was developed for the same reasons. It is closely based on the IRP but differs in certain respects, reflecting the complexity of covering multiple European CRE markets.

What does the E-IRP consist of?

The E-IRP is a standardised data template (which can be implemented in a spreadsheet) designed to normalise the collection and reporting of property level, loan level and bond level data for CRE debt, both at inception and on an ongoing basis. The current E-IRP contains hundreds of fields, reflecting the variety of covered types of CRE, CRE debt and jurisdictions, though the minimum requirement is far smaller. The actual number of data fields to be populated depends on variables such as the number of properties backing the loan, whether there is interest rate hedging in place, etc. There are standard formats for property-level financial information as well as communication of property status and, where relevant, workout strategies. More comprehensive data capture increases the possibilities for tracking, stress-testing and stratifying the information.

How do CRE debt investors use the E-IRP?

Most investors in CRE debt benefit indirectly from the E-IRP, rather than obtaining the information directly. The data captured by the E-IRP is principally used to produce reports for investors in CMBS bonds and drive trading tools for various types of securities. Though not used as universally as the IRP in the US, the E-IRP is maintained by a dedicated CREFC Europe Committee and is the only industry standard in use in the UK or European CRE debt market.

[8] Originally the IRP was developed by the Commercial Mortgage Securities Association (**CMSA**), the predecessor of the CRE Finance Council. The E-IRP was likewise developed by CMSA Europe (at that time the European chapter of CMSA). The CRE Finance Council remains responsible for the IRP, and CREFC Europe looks after the E-IRP.

Has the E-IRP been used by regulators?

Yes. The E-IRP formed the starting point both for the Bank of England's CMBS transparency rules and CMBS loan level reporting template, and for the European Central Bank's CMBS reporting requirements for its data warehouse. In each case, it was adapted for the particular intended purpose. Critically, the central banks recognised the value of building on the existing industry standard rather than potentially creating another market standard that could present procedural and definitional conflict in addition to sowing confusion on what should be the primary standard.

Similarly, various authorities in the US have adopted the IRP for regulatory and reporting purposes, ensuring consistency with the industry consensus around property type classifications and definitional terms.

Can the E-IRP support the development of a UK CRE loan database (such as is contemplated by the Real Estate Finance Group's Vision for Real Estate Finance in the UK)?

Yes. The E-IRP is not the only possible starting point, but it is arguably the most obvious one. Inevitably, the requirements of a database intended to capture all UK CRE loans will be slightly different, potentially requiring more flexibility than a system primarily developed for loans underpinning CMBS. E-IRP would allow reporting requirements to be pragmatically graduated for different sizes of loan or levels of sophistication of borrower. The requirements relating to construction lending and other transitional assets would present particular challenges that the E-IRP has not had to confront. However, the E-IRP captures the fundamental relationships of loans and properties in CRE lending consistent with most third party loan administration packages, resolves many practical and definitional questions and deals with complex scenarios such as loans secured by multiple properties or properties with multiple levels of debt.

It would make sense to review the data capture decisions made by the E-IRP against the Vision recommendation and particular needs identified by the regulator. It would also be helpful to compare the E-IRP against alternative models that have been developed, such as the PRA's property thematic and the databases developed (or under development) by other third party origination and risk platforms.[9]

[9] Examples include a platform developed by Radley & Associates and a platform being developed by IPD.