RiskCalc™ US Banks 4.0

Moody’s Analytics RiskCalc US Banks 4.0 Model generates a forward-looking probability of default (PD) or EDF™ (Expected Default Frequency) credit measure, loss given default (LGD), and expected loss (EL) for the US banking industry. It combines systematic credit measures with financial statement data, equity market information, static and forward-looking dynamic drivers of recovery, and qualitative factors to produce a highly predictive measurement of standalone credit risk. RiskCalc models are built from the world’s largest private firm database and world-class modeling and software technology.

THE CHALLENGE: MEASURING US BANKING CREDIT RISK

Developing consistent default models for global banking portfolios is a significant challenge due to data limitations and constraints on internal resources. Having a specific credit risk measure for individual banks around the world can help assess the risk of direct exposures and counterparty risk associated with business transactions.

Built with an Extensive Dataset

The RiskCalc US Banks 4.0 Model was developed and validated using close to 500 defaults, with close to 96,000 financial statements from 13,000 United States FDIC insured banks, bank holding companies, and thrifts. The dataset includes financial statement and default data from 2001 to 2012. By combining all of this data, the model evaluates commonalities, links default risk to a set of financial ratios, and incorporates portfolio composition by evaluating the risk in bank assets and losses.

Efficiency and Consistency

Moody’s Analytics RiskCalc solution’s robust analytics and broad coverage have made it the model of choice for assessing private firms and banks among the world’s leading institutions. It is considered the preferred model for:

» Efficiently screening obligors at origination and underwriting
» Ongoing monitoring and early detection of credit deterioration
» Consistent pricing based on counterparty risk levels
» Capital allocation based on forward-looking recovery values
» Calculating loss provisions, loan pricing, and investment analysis
» Use as a primary model or for benchmarking against an internal model
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Fundamental Data from Financial Statements
RiskCalc Banks 4.0 Model utilizes financial ratio variables based on their ability to predict corporate defaults. The model transforms these variables to accurately predict default probabilities.

» **Profitability:** ROA (Net Income to Assets)
» **Asset Quality:** Non-Performing Assets to Equity and Loan Loss Reserves, and Loan Loss Provision to Net Loans
» **Liquidity:** Net Loans to Deposits

RiskCalc Features

» **Incorporates an economic capital framework** based on portfolio theory by incorporating a measure of volatility of a bank’s losses relative to the bank’s loss-absorbing capital
» **Country and regional Credit Cycle Adjustments** based on forward-looking equity market information
» **Ratio diagnostics** provide a valuable, intuitive understanding of a bank, its risk drivers, and your exposure risk
» **Capture credit cycle changes** from month to month in the period between two financial statements producing EDF, LGD, and EL credit measures from one through five years
» **View time-series charting** on best- and worst-case historical trends
» **Centralized portal** stores and manages counterparty credit risk data and analytics

> Integrates with the RiskCalc Bank Scorecard, a qualitative overlay that offers a comprehensive framework for bank analysis. The overlay helps drive comparability to some of the factors considered in agency ratings. The categories include bank default risk, operating environment, external support, size of bank, and sovereign rating

» **Common systematic language** maps EDF and EL metrics to Moody’s Investors Service ratings or your firm’s ratings
» **Transparent modeling** developed and validated against CRD data and backed by transparent model documentation
» **Ongoing client support** from Moody’s Analytics Client Service and Support team, 24 hours a day, five days a week

Global Coverage Using World-Class Default & Recovery Models

» **Americas:** United States, Canada, Mexico, US Insurance, US Banks, and North America Large Firm
» **Europe, Middle East, and Africa:** Austria, France, Netherlands, Nordic (Denmark, Norway, Sweden, Finland), Portugal, Spain, United Kingdom, Germany, Belgium, Italy, South Africa, Switzerland, Russia, Europe Large Firm, Emerging Markets, and Banks
» **Asia Pacific:** Japan, Korea, Australia, Singapore, China, Emerging Markets, and Banks