Model Status / To –Do

Patricia 3/2014

(unordered list)

* Non-zero loss at default
* Check/debut current LLR implementation and opportunity cost
  + \*\* make opportunity cost only apply to unused LLR funds (?)
* Implement abilty to make LLR 2-3x the size of expected losses, and/or allow for a difference between expected losses and actual losses in the portfolio
  + Opp cost only calculated on unused portion of LLR funds
* *Post github reference for model and this to-do list on jive*
* *Plug zimring’s numbers into the model, see if it results in the same terms for the user*
  + *Probably a problem if it does*
  + Could attempt to address mathematically if a 100% LLR would cost the same as an IRB for the same user terms.
  + Would the balancing-out of LSR and LPCR result in the same size reserve for a given set of user terms?
* Figure out how to implement bank risk preferences and/or value the uncertainty in default rate
  + May be necessary for differentiating IRB from LLR
* \*\*\* Figure out how to calculate and/or graph the “break even” point for a LLR – when (at what gvt cost of capital) the cost to gvt for the LLR is the same as the cost to gvt for an IRB, delivering the same terms to the user.
  + Plot gvt ‘break even’ cost of capital against (LLR/expected loss)

**On the docket**

* Figure out how to make LLR and IRB play out correctly
  + Make bank.NPV calculation correct
  + Incorporate ev.pmt into bank.NPV calculation
* Figure out how to separate out the IRB payment from the user payments for the purposes of applying the expected chance of default, and for the bank.
* Should the more certain nature of the IRB payment affect the loan payment required by the bank? Should it just be implemented as an upfront payment to the bank? Will this have the same effect?
  + Is IRB value independent of interest.rate? It will need to be to implement IRB as an upfront reduction in loan amount.
* **Cost of LLR Capital**
* **Monthly vs annual interest rates, compounding**
* Risk premium
* Non-zero recovery at default
* 4% expected loss != 4% chance of default over tenor of loans. Understanding what the realistic parameter is for chance.full.loss…
  + What is the expected loss if the chance of default is 4%?
  + Specifying realistic parameters