Joint Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of Comptroller of the Currency

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Shared National Credit Review Finds Some Improvement in Credit Quality, Risk Remains Elevated in Leveraged Loans

Federal banking agencies find that risk in the portfolio of large syndicated bank loans has declined, due to improving conditions in most sectors. Despite the improvement, the dollar volume of loans rated below "pass," as a percentage of total loans, remains elevated compared with levels experienced in prior economic cycles, according to the Shared National Credit (SNC) Program Review.

The report--released today by the Federal Reserve Board (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)--reflects the results of reviews in 2018 covering SNC loans originated by or before March 31, 2018. Furthermore, the review finds increased risks associated with leveraged lending. The agencies remind banks to update credit risk management practices as the risk profile of borrowers and the industry changes.

The 2018 SNC portfolio included 8,571 credit facilities to 5,314 borrowers, totaling $4.4 trillion, up from $4.3 trillion in 2017. U.S. banks held the greatest volume of SNC commitments at 44.3 percent of the portfolio, followed by foreign banking organizations and other investor entities such as securitization pools, hedge funds, insurance companies, and pension funds. Effective January 1, 2018, the agencies increased the minimum aggregate loan commitment threshold to be included in the review from $20 million to $100 million. Under the revised definition, loan commitments increased modestly compared with levels reported in 2017. The number of borrowers and credit facilities, however, has declined.

Reviewed loan commitments were stratified by the severity of their risk--special mention, substandard, doubtful, or loss, the last three of which are known as "classified." Overall, the level of loans rated below "pass," as a percentage of the total SNC portfolio, decreased year-over-year from 9.7 percent to 6.7 percent. Leveraged lending was the primary contributor to the overall "special mention" and "classified" rates, comprising 73 percent of "special mention" and 86 percent of "classified" commitments. Investors outside the banking industry held the greatest volume of "special mention" and "classified" commitments, followed by U.S. banks and foreign banking organizations.

The agencies conduct SNC reviews in the first and third calendar quarters with some banks receiving two reviews and others receiving a single review each year. The agencies issue a single statement annually that includes combined findings from the previous 12 months. This practice presents a complete view of the entire SNC portfolio, which can be compared with prior years' reports. The next report will be published following the third quarter 2019 SNC examination.

For additional information, see the attached SNC Program Review Report.

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Attachments:
Shared National Credit Program Review Report

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