Joint Release

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

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Shared National Credit Review Finds Risk Remains Elevated in Leveraged Loans

WASHINGTON — Federal bank regulatory agencies find that the share and amount of loan commitments with the lowest supervisory ratings rose slightly between 2018 and 2019, according to the Shared National Credit (SNC) Program Review. Total commitments with low ratings remain elevated compared to lows reached during prior periods of strong economic performance.

The report, which was released today by the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), reflects reviews primarily covering SNC loans originated on or before June 30, 2019. It finds that credit risk associated with leveraged lending remains elevated. Lenders have fewer protections and risks have increased in leveraged loan terms through the current long period of economic expansion since the last recession. Most banks have adopted credit risk-management practices to monitor and control this evolving risk. However, some of these controls have not been tested in an economic downturn. The agencies require banks to have risk-management processes that can identify and adapt to changing market conditions.

The 2019 SNC portfolio included 5,474 borrowers, totaling $4.8 trillion, up from $4.4 trillion in 2018. U.S. banks held the greatest volume of SNC commitments at 44.4 percent of the portfolio, followed by foreign banking organizations and other investor entities such as securitization pools, hedge funds, insurance companies, and pension funds. Total commitments increased by $396 billion, or 8.9 percent, from third quarter of 2018 to the third quarter of 2019. Growth was concentrated in investment grade equivalent transactions. The number of borrowers and facilities increased modestly in 2019 after a sizeable decline in 2018 associated with an increase in the minimum commitment threshold to $100 million that was effective January 1, 2018.

Loan commitments were reviewed and grouped into four categories by the severity of their risk, from less severe to more severe: 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 increased slightly from 6.7 percent to 6.9 percent. Bank-identified leveraged loan commitments represent 49 percent of total SNC commitments. Leveraged lending was the primary contributor to the overall special mention and classified rates. 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 2020 SNC examination.

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

Attachments:

SNC Program Review Report

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