Joint Release

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

For Immediate Release October 10, 2013

Credit Risk in the Shared National Credit Portfolio Unchanged

The credit quality of large loan commitments owned by U.S. banking organizations, foreign banking organizations (FBOs), and nonbanks was relatively unchanged in 2013 from the prior year, federal banking agencies said Thursday.

The volume of criticized assets remained elevated at $302 billion, or 10 percent of total commitments, which was approximately twice the percentage of pre-crisis levels. The stagnation in credit quality follows three consecutive years of improvements. A criticized asset is rated special mention, substandard, doubtful, or loss as defined by the agencies' uniform loan classification standards. The Shared National Credits (SNC) annual review was completed by the Federal Reserve Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency.

Leveraged loans--transactions characterized by a borrower with a degree of financial leverage that significantly exceeds industry norms--totaled $545 billion of the 2013 SNC portfolio and accounted for $227 billion, or 75 percent, of criticized SNC assets. Material weaknesses in the underwriting of leveraged loans were observed, and 42 percent of leveraged loans were criticized by the agencies.

The federal banking agencies issued updated leveraged lending supervisory guidance on March 21, 2013. After declining during the financial crisis, the volume of leveraged lending has since increased and underwriting standards have deteriorated. The agencies expect supervised firms to properly evaluate and monitor credit risks in their leveraged loan commitments and ensure borrowers have sustainable capital structures.

Refinancing risk continued to ease in 2013 with only 15 percent of SNCs maturing over the next two years, compared with 23 percent for the same time frame in the previous review. Borrowers continued to refinance and extend loan maturities during the past year.

Other highlights:

- Total SNC commitments increased by $219 billion to $3.01 trillion, an 8 percent gain from the 2012 review. Total SNC loans outstanding increased $199 billion to $1.36 trillion, an increase of 10 percent.

- Criticized assets represented 10 percent of the SNC portfolio, compared with 11 percent in 2012.

- Classified assets, which are rated as substandard, doubtful, and loss, represented 6 percent of the SNC portfolio, compared with 7 percent in 2012.

- Credits rated special mention, which exhibit potential weakness and could result in further deterioration if uncorrected, increased from $99 billion to $115 billion, representing approximately 4 percent of the portfolio, a slight increase from 2012.

- Adjusted for losses, nonaccrual loans declined from $82 billion to $61 billion, a 26 percent reduction.

- The distribution of credits across entities, (U.S. banking organizations, FBOs, and nonbanks) remained relatively unchanged. U.S. banking organizations owned 44 percent of total SNC loan commitments, FBOs owned 36 percent, and nonbanks owned 20 percent.

- Nonbanks continued to own a larger share of classified (67 percent) and nonaccrual (72 percent) assets than their total share of the SNC portfolio. Institutions insured by the FDIC owned 12 percent of classified assets and 7 percent of nonaccrual loans.

The SNC program was established in 1977 to provide an efficient and consistent review and analysis of SNCs. A SNC is any loan or formal loan commitment, and asset such as real estate, stocks, notes, bonds, and debentures taken as debts previously contracted, extended to borrowers by a federally supervised institution, its subsidiaries, and affiliates that aggregates $20 million or more and is shared by three or more unaffiliated supervised institutions. Many of these loan commitments are also shared with FBOs and nonbanks, including securitization pools, hedge funds, insurance companies, and pension funds.

In conducting the 2013 SNC Review, the agencies reviewed $800 billion of the $3.01 trillion credit commitments in the portfolio. The sample was weighted toward noninvestment grade and criticized credits. The results of the review are based on analyses prepared in the second quarter of 2013 using credit-related data provided by federally supervised institutions as of December 31, 2012, and March 31, 2013.

Attachments

Shared National Credits Program 2013 Review - PDF (PDF Help)

Industry Mapping File - PDF (PDF Help)

Media Contacts:

Federal Reserve	Eric Kollig	202-452-2955
FDIC	Greg Hernandez	202-898-6984
OCC	Stephanie Collins	202-649-6870

FDIC: PR-89-2013