Joint Release

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

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Reviews of Shared National Credit Portfolio Find Risk Remains High

Underwriting and Risk Management Practices Continue to Improve

Risk in the portfolio of large syndicated bank loans declined slightly but remains elevated, according to the Shared National Credit (SNC) Program Review 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).

The high level of credit risk in the SNC portfolio stems primarily from distressed borrowers in the oil and gas (O&G) sector and other industry sector borrowers exhibiting excessive leverage. The review also found that credit risk management practices at most large agent banks continued to improve, consistent with the 2013 Interagency Guidance on Leveraged Lending.

The 2017 SNC portfolio included 11,350 credit facilities to 6,902 borrowers, totaling $4.3 trillion, up from $4.1 trillion in 2016. U.S. banks held the greatest volume of SNC commitments at 45.3 percent of the portfolio, followed by foreign banking organizations and non-bank entities. The review relied on the results of examinations conducted in the third quarter of 2016 and the first quarter of 2017.
Loans were reviewed and stratified by the severity of their risk--special mention, substandard, doubtful, or loss--in order of increasing severity. Classified commitments include commitments rated substandard, doubtful and loss.

Other findings include:

- The percentage of non-pass commitments decreased year-over-year from 10.3 percent to 9.7 percent of the SNC portfolio. Commitments rated special mention and classified decreased from $421.4 billion in 2016 to $417.6 billion in 2017.
- Leveraged lending was the primary contributor to the overall special mention and classified rate. Leveraged loans comprised 64.9 percent of all SNC special mention and classified commitments. O&G loans comprised 25.7 percent of all SNC special mention and classified commitments.
- The agencies noted $317 billion of leveraged loans in the respective agent banks' lowest-rated pass category, raising additional supervisory concerns should economic conditions decline.
- The share of credits rated special mention and classified held by non-bank entities fell from 60.8 percent in 2016 to 56.1 percent this year. This trend began in 2015 and is due to a relatively low dollar volume (10.7 percent) of O&G loans held by non-banks.
- As a result of underwriting improvements, non-pass loan originations are at a de minimis level. However, examiners noted the use of aggressive projections as a common theme in the non-pass originations.

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The agencies conduct SNC reviews in the first and third calendar quarters with some banks receiving two examinations and others participating in a single review each year. The agencies provide results from the semiannual examinations in a combined report in order to present a complete view of the entire SNC portfolio comparable to prior years' reports. The next report will be published following the first quarter 2018 SNC examination.

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

Attachment:

- SNC Program Review Report

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