FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-49-2015
November 6, 2015

Advisory on Effective Risk Management Practices for Purchased Loans and Purchased Loan Participations

Summary: The FDIC is issuing the attached Advisory to update information contained in the *FDIC Advisory on Effective Credit Risk Management Practices for Purchased Loan Participations* (FIL-38-2012). This updated Advisory addresses purchased loans and loan participations and reminds FDIC-supervised institutions of the importance of underwriting and administering these purchased credits as if the loans were originated by the purchasing institution. The updated Advisory also reminds institutions that third-party arrangements to facilitate loan and loan participation purchases should be managed by an effective third-party risk management process.

Statement of Applicability to Institutions with Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer / Chief Credit Officer / Chief Risk Officer

Related Topics:
Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to Part 364 of the FDIC Rules and Regulations

Guidance for Management Third-Party Risk, FIL-44-2008

Final Joint Guidance on Leveraged Lending , FIL-13-2013 and *Frequently Asked Questions for Implementing March 2013 Interagency Guidance on Leveraged Lending*, FIL-53-2014

Attachment:
FDIC Advisory on Effective Credit Risk Management Practices for Purchased Loans and Purchased Loan Participations

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Note:
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Highlights

- Some institutions are relying on lead or originating institutions and nonbank third parties to perform risk management functions when purchasing: loans and loan participations, including out-of-territory loans; loans to industries or loan types unfamiliar to the bank; leveraged loans; unsecured loans; or loans underwritten using proprietary models.

- Institutions should underwrite and administer loan and loan participation purchases as if the loans were originated by the purchasing institution. This includes understanding the loan type, the obligor's market and industry, and the credit models relied on to make credit decisions.

- Before purchasing a loan or participation or entering into a third-party arrangement to purchase or participate in loans, financial institutions should:
  - ensure that loan policies address such purchases,
  - understand the terms and limitations of agreements,
  - perform appropriate due diligence, and
  - obtain necessary board or committee approvals.

- This Advisory supplements existing guidance and rescinds and replaces the *FDIC Advisory on Effective Credit Risk Management Practices for Purchased Loan Participations*, FIL-38-2012.