Summary: The Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (agencies) are issuing responses to commonly asked questions about the Interagency Guidance on Leveraged Lending (Guidance) issued March 22, 2013. The Guidance is intended to help institutions strengthen risk management frameworks to ensure that leveraged lending activities do not heighten risk in the banking system through the origination and distribution of poorly underwritten and low-quality loans. The responses contained in the FAQs foster industry and examiner understanding and promote consistent application and implementation of the Guidance.

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. However, only a limited number of community institutions have exposure to leveraged credits.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

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

Attachment:
Frequently Asked Questions for Implementing the Interagency Guidance on Leveraged Lending

Related Topics:
FIL-13-2013 Final Joint Guidance on Leveraged Lending

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Note:

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/index.html.

Paper copies may be obtained through the FDIC's Public Information Center, 5301 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

- The Guidance is intended to ensure that leveraged lending activities of federally regulated financial institutions are conducted in a safe-and-sound manner.

- The attached FAQs were developed to respond to commonly asked questions on the implementation of the Guidance and promote consistent application and interpretation. Topics include:
  - Definition of a leveraged loan.
  - Loans with non-pass risk ratings.
  - Trading desk activities.
  - Underwriting standards.
  - Institution applicability.
  - Examiner assessment.
  - Differences between the Guidance and the FDIC’s deposit insurance assessment rule.

- The agencies expect institutions to originate loans with a sound business premise, a sustainable capital structure, and the capacity to repay the loan or to de-lever to a sustainable level over a reasonable period.

- The agencies have criticized institutions that originate or purchase participations in non-pass leveraged loans. Leveraged loans originated with a non-pass risk rating at inception would be inconsistent with safe-and-sound lending standards and the risk management criteria outlined in the Guidance.