

# Shared National Credit Program

1st and 3rd Quarter 2019 Reviews

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

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# Table of Contents

- About the Shared National Credit (SNC) Program..... 1
- Summary of Results ..... 1
- Leveraged Loans ..... 1
- SNC Commitments: Volume, Credit Quality, and Trends ..... 2
  - Overall SNC Population ..... 2
  - Leveraged Lending..... 4
- SNC Commitments: Ownership of Risk..... 5
- Appendix A: Definitions..... 7
- Appendix B: Committed and Outstanding Balances ..... 9
- Appendix C: Summary of SNC Industry Trends ..... 10
- Appendix D: Exposures by Entity Type ..... 11

## About the Shared National Credit Program

The Shared National Credit (SNC) Program is an interagency review and assessment of risk in the largest and most complex credits shared by multiple regulated financial institutions. The SNC Program is governed by an interagency agreement among the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies). The program began in 1977 to review credits with minimum aggregate loan commitments totaling \$20 million or more that were shared by two or more regulated financial institutions (banks). A program modification in 1998 increased the minimum number of regulated financial institutions from two to three. To adjust for inflation and changes in average loan size, the agencies increased the minimum aggregate loan commitment threshold from \$20 million to \$100 million effective January 1, 2018.

SNC reviews are completed in the first and third quarters of the calendar year. Large agent banks receive two reviews each year while most other agent banks receive a single review each year. The results discussed in this document are based on reviews conducted in the first and third quarters of 2019 and primarily cover loan commitments originated on or before June 30, 2019. Trends and exhibits shown in the report include outstanding loans and commitments by all reporting banks. Although some banks are reviewed twice a year, the agencies will continue to issue a single statement annually that captures combined findings from the previous 12 months. The next statement will be released upon completion of the third quarter 2020 SNC review.

## Summary of Results

The volume of SNC commitments with the lowest supervisory ratings (special mention and classified<sup>1</sup>) rose slightly between 2018 and 2019. Total special mention and classified commitment levels remain elevated compared with lows reached during previous periods of strong economic performance. A significant portion of special mention and classified commitments are concentrated in transactions that agent banks identified and reported as leveraged loans. There has been accumulation of risk in bank-identified leveraged loan structures through the long period of economic expansion. In response, most banks have adopted credit risk management practices to monitor and control this evolving risk. Some of these controls, however, have not been tested in an economic downturn.

## Leveraged Loans

Credit risk associated with leveraged lending remains elevated. The SNC reviews found that many leveraged loan transactions possess weak structures. Underwriting risks are often layered and include some combination of high leverage, aggressive repayment assumptions, weakened covenants, or permissive borrowing terms that allow borrowers to draw on incremental facilities and further increase debt levels. Many of these credit risk factors are market driven and were not materially present in previous downturns. The agencies are focused on assessing the impact of layered risks in leveraged lending transactions and on determining whether bank risk management practices continue to evolve to address emerging risks.

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<sup>1</sup> Special mention and classified commitments are defined in appendix A.

The volume of leveraged transactions exhibiting these layered risks has increased significantly over the past several years as strong investor demand has enabled borrowers to obtain less restrictive terms. Given the accumulated risks in these transactions, a material downturn in the economy could result in a significant increase in classified exposures and higher losses. In addition, nonbank entities continue to participate in the leveraged lending market as these firms seek credit exposure via loan purchases. These nonbank entities hold a significant portion of non-pass leveraged SNC commitments and mostly non-investment grade<sup>2</sup> equivalent SNC leveraged term loans. Banks primarily hold investment grade equivalent revolving SNC leveraged exposures. The agencies note these investment preferences are not universal as some banks seek higher yields in this relatively benign environment.

Agent banks' risk management practices for leveraged loan commitments have improved since 2013. Agent banks are better equipped to assess borrower repayment capacity and estimate enterprise valuations while having improved other risk management practices. While most agent banks have implemented risk limit frameworks, these frameworks have not been tested by an economic downturn.

Banks engaged in originating and participating in leveraged lending should ensure their risk management processes remain effective in changing market conditions. Controls should ensure that financial analysis, completed during underwriting and to monitor performance, is based on appropriate revenue, growth, and cost savings assumptions and considers the impact of incremental facilities. All banks should ensure that portfolio management and stress testing processes consider that recovery rates may differ from historical experience. Banks also should consider how potential risks from a downturn in the leveraged lending market may affect other customers and borrowers. The agencies expect identified risks to be measured against their potential impact on earnings and capital.

## **SNC Commitments: Volume, Credit Quality, and Trends**

### **Overall SNC Population**

The 2019 SNC population totaled \$4.8 trillion in commitments. Total commitments increased by \$396 billion, or 8.9 percent, from the third quarter of 2018 to the third quarter of 2019. Growth was concentrated in investment grade<sup>2</sup> equivalent transactions. The number of borrowers and facilities increased modestly in 2019 after a sizable decline in 2018 associated with an increase in the minimum commitment threshold to \$100 million that was effective January 1, 2018 (see exhibit 1). The agencies continue to select SNC transactions to review using a risk-based sample with a continued focus on bank-identified leveraged loans.

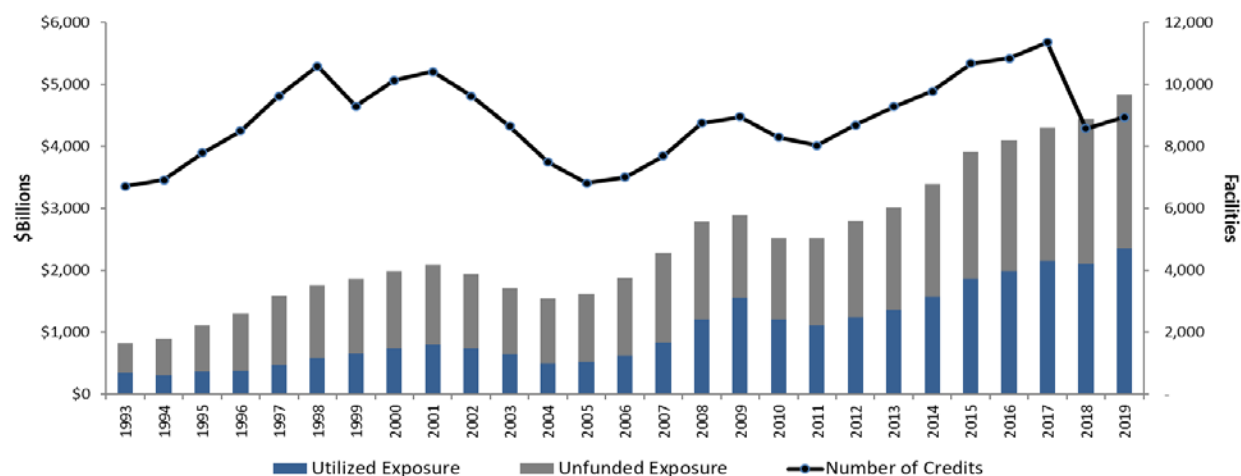
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<sup>2</sup> The terms “non-investment grade” and “investment grade” as used in this document are based on bank-provided facility-level equivalent ratings.

Asset quality measures and trends in the composition of SNC commitments by major industry group<sup>3</sup> are provided in appendix C.

See exhibit 1 for trends in SNC commitments and number of facilities.

**Exhibit 1: Overall Credit Facilities and Commitment Trends**



Note: The decline in the number of SNC facilities between 2017 and 2018 mainly reflects the minimum commitment increase from \$20 million to \$100 million.

Exhibit 2 details the year-over-year changes in aggregate SNC commitment amounts.

**Exhibit 2: Overall SNC Commitment Amounts**

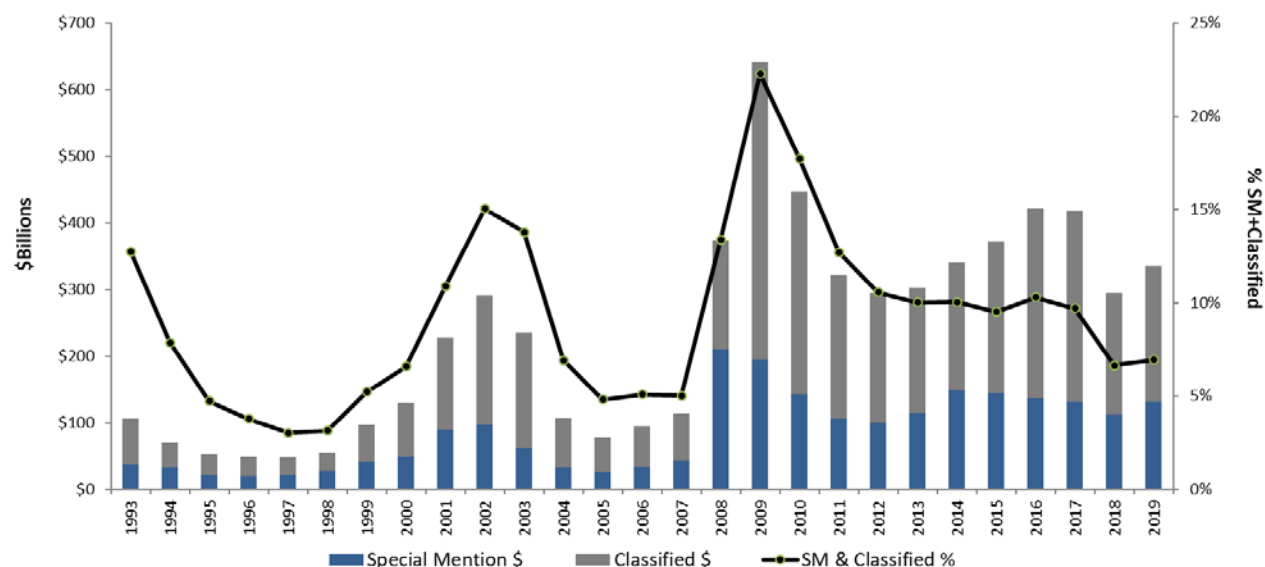
	2018 commitments (\$ billion)	2019 commitments (\$ billion)	Changes from 2019 vs. 2018 (\$ billion)	Changes from 2019 vs. 2018 (%)
<b>SNC total commitments</b>	\$4,434.5	\$4,830.4	\$395.9	8.9%
<b>SNC total outstanding</b>	\$2,106.0	\$2,358.8	\$252.8	12.0%
<b>SNC total borrowers</b>	5,314	5,474	160	3.0%
<b>SM and classified commitments</b>	\$294.9	\$335.4	\$40.5	13.7%
<b>SM commitments</b>	\$112.4	\$131.2	\$18.8	16.7%
<b>Classified commitments</b>	\$182.5	\$204.1	\$21.7	11.9%
<b>Non-accrual commitments</b>	\$35.8	\$39.3	\$3.5	9.8%

Note: Numbers may not add to totals because of rounding.

<sup>3</sup> The agencies introduced industry data in 2008 that presented industries vertically along product origination and distribution lines. The review places credits in seven primary sectors, largely following the outline of the 2007 U.S. Census Bureau North American Industry Classification System codes (see appendix C).

Exhibit 3 shows trends in the dollar volume of special mention plus classified commitments and that volume as a percentage of total commitments. Special mention plus classified commitment volumes remain more elevated than they were in previous periods of strong economic performance, and overall special mention plus classified commitments now represent 6.9 percent of total commitments.

**Exhibit 3: Overall Special Mention Plus Classified Volume and Percentage Trends**



## Leveraged Lending

Bank-identified leveraged loan commitments represent 49 percent of total SNC commitments, 83 percent of special mention commitments, and 80 percent of classified commitments. Total agent bank-identified leveraged loan commitments increased during the past year. This increase is concentrated in merger and acquisition activity and revolving lines of credit for higher-quality borrowers. Bank-identified leveraged lending remains a primary focus of SNC review samples given growth, asset quality, and layered underwriting risk within the segment. Samples of bank-identified leveraged borrowers covered 31.2 percent of leveraged borrowers and 36.0 percent of leveraged lending commitments (see exhibit 4).

**Exhibit 4: SNC Bank-Identified Leveraged Lending Exposure and Review Sample**

	2018 SNC examination (\$ billion)	2019 SNC examination (\$ billion)	2019 vs. 2018 (\$ billion)
SNC leveraged lending commitments	\$2,089.9	\$2,386.0	\$296.1
Sampled SNC leveraged lending commitments	\$967.8	\$858.9	(\$108.9)
SNC leveraged lending obligors	2,152	2,248	96
Sampled SNC leveraged lending obligors	809	702	(107.0)

Banks hold \$1.5 trillion or 64 percent of SNC bank-identified leveraged loans, most of which consists of higher rated and investment grade equivalent revolvers. Non-banks primarily hold non-investment grade equivalent term loans (see exhibit 5).

**Exhibit 5: SNC Bank-Identified Leveraged Lending Ownership by Credit Type, Quality and Entity Type**

Bank identified leveraged lending	3Q 2019 SNC bank owned (\$ billion)	3Q 2109 SNC nonbanks (\$ billion)
Investment grade – revolver	\$695.0B	\$14.0B
Investment grade – term loan	\$210.0B	\$35.0B
Non-investment grade – revolver	\$440.0B	\$23.0B
Non-investment grade – term loan	\$183.0B	\$786.0B
<b>Total</b>	<b>\$1,528.0B</b>	<b>\$858.0B</b>

Note: The phrases “non-investment grade” and “investment grade” are based on bank-provided facility-level equivalent ratings.

## SNC Commitments: Ownership of Risk

As has been the case for several years, U.S. banks hold the largest amount of SNC commitments, followed by foreign bank organizations (FBOs) and nonbanks (see exhibit 6).

**Exhibit 6: Distribution of SNC Commitments by Lender Type**

	2018 commitments (\$ billion)	2019 commitments (\$ billion)	2018 commitments	2019 commitments
<b>U.S. banks</b>	\$1,965.3	\$2,144.9	44.3%	44.4%
<b>FBOs</b>	\$1,482.9	\$1,618.1	33.4%	33.5%
<b>Nonbanks</b>	\$986.4	\$1,067.4	22.2%	22.1%
<b>Total</b>	<b>\$4,434.5</b>	<b>\$4,830.4</b>	<b>100.0%</b>	<b>100.0%</b>

Note: Nonbanks primarily include collateralized loan obligations, loan funds, investment managers, insurance companies, and pension funds. Numbers may not add to totals because of rounding.

Nonbanks continue to hold a disproportionate share of all loan commitments rated below a regulatory pass (see exhibit 7).

**Exhibit 7: Distribution of SNC Special Mention and Classified Commitments by Lender Type**

	2019 special mention and classified by owner (\$ billions)	2019 special mention and classified (% held by owner)	2019 special mention and classified (% of total committed by owner)
<b>U.S. banks</b>	\$63.8	19.0%	3.0%
<b>FBOs</b>	\$53.8	16.0%	3.3%
<b>Nonbanks</b>	\$217.8	64.9%	20.4%
<b>Total</b>	<b>\$335.4</b>	<b>100.0%</b>	<b>6.9%</b>

Note: Nonbanks also hold \$23.6 billion or 60.1 percent of all nonaccrual loans. Numbers may not add to totals because of rounding.

Details on supervisory definitions, outstanding balances, industry trends, and exposure by entity type can be found in the appendixes of this document.



## Appendix A: Definitions

**Classified commitments:** Classified commitments include commitments rated substandard, doubtful, and loss. The agencies' uniform loan classification standards and examination manuals define these risk rating classifications. Loans that are special mention and classified are considered non-pass loans.

**Credit facilities:** Credit facilities include syndicated loans and loan commitments, letters of credit, commercial leases, and other forms of credit. Commitment amounts include both drawn and undrawn portions of the loans or facilities. The SNC review reports only the par amounts of commitments, which may differ from the amounts at which loans are carried by investors.

**Doubtful:** Doubtful commitments have all the weaknesses of commitments classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of available current information, highly questionable and improbable.

**Loss:** Commitments classified as loss are uncollectible and of so little value that their continuance as bankable commitments is not warranted. Amounts classified as loss should be promptly charged off. This classification does not mean that there is no recovery or salvage value, but rather that it is not practical or desirable to defer writing off these commitments, even though some value may be recovered in the future.

**Nonaccrual:** Nonaccrual loans are defined for regulatory reporting purposes as loans and lease financing receivables that are required to be reported on a nonaccrual basis because (a) they are maintained on a cash basis owing to a deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for 90 days or longer, unless the obligation is both well secured and in the process of collection.

**Non-pass loan:** A non-pass loan is any loan that is rated special mention, substandard, doubtful, or loss.

**Pass:** A credit that is in good standing and is not rated special mention or classified in any way.

**Shared national credit (SNC):** A shared national credit is any loan or formal loan commitment, and any 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 to \$100 million or more and is shared by three or more unaffiliated federally supervised institutions, or a portion of which is sold to two or more unaffiliated federally supervised institutions.

**Special mention:** Special mention commitments have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses could result in further deterioration of the repayment prospects or in the institution's credit position in the future. Special mention commitments are not adversely classified and do not expose institutions to sufficient risk to warrant adverse rating.

**Substandard:** Substandard commitments are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard commitments have well-defined weaknesses that jeopardize the liquidation of the debt and present the distinct possibility that the institution will sustain some loss if deficiencies are not corrected.

## Appendix B: Committed and Outstanding Balances

(Dollars in billions)								
Year	Special mention	Sub-standard	Doubtful	Loss	Total classified	Total special mention & classified	Total committed	Total outstanding
1989	24.0	18.5	3.5	0.9	22.9	46.9	692	245
1990	43.1	50.8	5.8	1.8	58.4	101.5	769	321
1991	49.2	65.5	10.8	3.5	79.8	129.0	806	361
1992	50.4	56.4	12.8	3.3	72.5	122.9	798	357
1993	31.7	50.4	6.7	3.5	60.6	92.3	806	332
1994	31.4	31.1	2.7	2.3	36.1	67.5	893	298
1995	18.8	25.0	1.7	1.5	28.2	47.0	1,063	343
1996	16.8	23.1	2.6	1.4	27.1	43.9	1,200	372
1997	19.6	19.4	1.9	0.9	22.2	41.8	1,435	423
1998	22.7	17.6	3.5	0.9	22.0	44.7	1,759	562
1999	30.8	31.0	4.9	1.5	37.4	68.2	1,829	628
2000	36.0	47.9	10.7	4.7	63.3	99.3	1,951	705
2001	75.4	87.0	22.5	8.0	117.5	192.8	2,049	769
2002	79.0	112.0	26.1	19.1	157.1	236.1	1,871	692
2003	55.2	112.1	29.3	10.7	152.2	207.4	1,644	600
2004	32.8	55.1	12.5	6.4	74.0	106.8	1,545	500
2005	25.9	44.2	5.6	2.7	52.5	78.3	1,627	522
2006	33.4	58.1	2.5	1.2	61.8	95.2	1,874	626
2007	42.5	69.6	1.2	0.8	71.6	114.1	2,275	835
2008	210.4	154.9	5.5	2.6	163.1	373.4	2,789	1,208
2009	195.3	337.1	56.4	53.3	446.8	642.1	2,881	1,563
2010	142.7	256.4	32.6	15.4	304.5	447.2	2,519	1,210
2011	106.4	190.7	14.0	9.9	214.6	321.0	2,524	1,118
2012	99.3	161.7	29.5	4.6	195.8	295.1	2,792	1,243
2013	115.0	164.5	14.5	8.0	187.0	302.0	3,011	1,362
2014	149.2	171.0	11.8	7.8	191.3	340.6	3,389	1,568
2015	144.2	203.2	20.6	4.6	228.4	372.6	3,909	1,867
2016	136.4	250.7	25.7	8.6	285.1	421.4	4,102	1,986
2017	131.7	245.1	24.2	16.6	285.9	417.6	4,304	2,149
2018	112.4	173.9	5.1	3.4	182.5	294.9	4,435	2,106
2019	131.2	186.3	10.3	7.5	204.1	335.4	4,830	2,359

Note: Figures may not add to totals because of rounding

## Appendix C: Summary of SNC Industry Trends

(Dollars in Billions)											
Industry	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Services</b>											
Commitment	820.1	735.4	701.3	784.9	821.2	927.3	1,062.1	1,101.5	1,150.7	1,232.9	1,348.0
Classified	156.5	120.1	92.3	92.8	86.2	85.5	74.9	90.8	103.0	79.5	95.8
Special Mention	81.5	73.1	57.3	43.2	47.3	65.2	68.1	54.2	49.7	42.1	57.2
% Classified	19.1%	16.3%	13.2%	11.8%	10.5%	9.2%	7.1%	8.2%	8.9%	6.4%	7.1%
% Special Mention	9.9%	9.9%	8.2%	5.5%	5.8%	7.0%	6.4%	4.9%	4.3%	3.4%	4.2%
<b>Financial</b>											
Commitment	470.9	391.3	435.4	462.6	521.9	598.3	691.7	752.0	781.7	880.5	1,002.7
Classified	60.4	32.6	27.6	24.7	25.3	26.7	32.2	24.7	15.4	15.3	13.9
Special Mention	28.0	17.7	9.6	9.6	12.1	19.6	20.5	18.4	9.4	14.5	8.3
% Classified	12.8%	8.3%	6.3%	5.3%	4.8%	4.5%	4.6%	3.3%	2.0%	1.7%	1.4%
% Special Mention	5.9%	4.5%	2.2%	2.1%	2.3%	3.3%	3.0%	2.4%	1.2%	1.6%	0.8%
<b>Commodities</b>											
Commitment	658.8	592.3	593.0	665.0	709.5	788.6	904.5	937.9	937.8	907.7	969.2
Classified	77.8	57.7	42.5	34.8	39.4	43.5	72.1	114.6	111.2	50.1	48.5
Special Mention	34.9	20.4	14.0	22.4	27.7	30.0	23.1	35.7	48.2	24.8	28.4
% Classified	11.8%	9.7%	7.2%	5.2%	5.6%	5.5%	8.0%	12.2%	11.9%	5.5%	5.0%
% Special Mention	5.3%	3.4%	2.4%	3.4%	3.9%	3.8%	2.5%	3.8%	5.1%	2.7%	2.9%
<b>Manufacturers</b>											
Commitment	436.6	368.4	385.2	431.4	480.1	531.8	599.2	632.8	685.3	691.2	743.2
Classified	78.4	27.2	17.0	16.6	15.7	16.5	23.3	30.5	29.7	15.7	17.5
Special Mention	16.3	7.6	4.3	7.7	13.0	16.6	21.3	13.6	14.9	13.4	12.0
% Classified	18.0%	7.4%	4.4%	3.9%	3.3%	3.1%	3.9%	4.8%	4.3%	2.3%	2.4%
% Special Mention	3.7%	2.1%	1.1%	1.8%	2.7%	3.1%	3.6%	2.1%	2.2%	1.9%	1.6%
<b>Distribution</b>											
Commitment	220.5	199.0	225.9	268.7	291.3	306.5	369.8	373.4	402.9	385.2	403.1
Classified	23.2	19.6	10.0	10.7	11.8	11.0	16.7	15.0	18.0	18.4	23.0
Special Mention	12.1	8.4	9.8	8.9	12.4	15.9	8.5	11.0	5.6	8.4	12.4
% Classified	10.5%	9.9%	4.4%	4.0%	4.1%	3.6%	4.5%	4.0%	4.5%	4.8%	5.7%
% Special Mention	5.5%	4.2%	4.4%	3.3%	4.3%	5.2%	2.3%	2.9%	1.4%	2.2%	3.1%
<b>Real Estate</b>											
Commitment	244.4	198.2	164.8	164.8	171.9	222.1	262.3	284.9	324.3	318.3	345.2
Classified	49.2	45.9	23.7	14.4	5.1	3.9	5.8	6.6	5.9	2.9	4.9
Special Mention	22.3	15.3	11.4	6.9	2.1	2.0	2.3	3.6	3.9	9.4	13.0
% Classified	20.1%	23.1%	14.4%	8.8%	3.0%	1.7%	2.2%	2.3%	1.8%	0.9%	1.4%
% Special Mention	9.1%	7.7%	6.9%	4.2%	1.2%	0.9%	0.9%	1.3%	1.2%	2.9%	3.8%
<b>Government</b>											
Commitment	29.9	34.0	18.5	14.6	15.3	15.8	19.1	19.8	21.0	18.7	19.1
Classified	1.2	1.5	1.5	1.6	3.4	4.2	3.5	2.9	2.6	0.6	0.5
Special Mention	0.2	0.1	0.0	0.5	0.3	0.2	0.4	0.0	0.1	0.0	0.0
% Classified	4.0%	4.3%	8.4%	11.0%	22.4%	26.7%	18.2%	14.6%	12.6%	3.1%	2.7%
% Special Mention	0.7%	0.4%	0.0%	3.4%	2.1%	1.4%	2.1%	0.0%	0.3%	0.0%	0.0%
<b>All Industries (Total)</b>											
Commitment	2,881.2	2,518.5	2,524.2	2,792.0	3,011.1	3,390.5	3,908.8	4,102.3	4,303.7	4,434.5	4,830.4
Classified	446.8	304.5	214.6	195.8	187.0	191.3	228.4	285.1	285.9	182.5	204.1
Special Mention	195.3	142.7	106.4	99.3	115.0	149.4	144.2	136.4	131.7	112.4	131.2
% Classified	15.5%	12.1%	8.5%	7.0%	6.2%	5.6%	5.8%	6.9%	6.6%	4.1%	4.2%
% Special Mention	6.8%	5.7%	4.2%	3.6%	3.8%	4.4%	3.7%	3.3%	3.1%	2.5%	2.7%

Note: Figures may not add to totals because of rounding

## Appendix D: Exposures by Entity Type

Share of Total Commitments (%)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US Banking Institutions	40.8	40.8	41.5	43.2	44.4	43.4	43.3	44.9	45.3	44.3	44.4
FBOs	38.0	37.9	38.3	36.9	35.8	34.5	33.7	33.6	33.9	33.4	33.5
Other Investors	21.2	21.3	20.2	19.8	19.7	22.1	23.0	21.6	20.8	22.2	22.1
Total Classifications (\$ Billion)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US Banking Institutions	134.8	81.6	49.4	35.8	29.2	25.6	40.7	63.9	66.7	35.5	41.2
FBOs	101.8	62.0	41.7	37.8	32.4	25.1	34.8	54.0	53.2	29.7	31.9
Other Investors	210.2	160.9	123.5	122.2	125.4	140.6	153.0	167.2	165.9	117.3	131.0
Totals	446.8	304.5	214.6	195.8	187.0	191.3	228.4	285.1	285.9	182.5	204.1
Classified as % of Commitments											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US Banking Institutions	11.5	7.9	4.7	3.0	2.2	1.7	2.4	3.5	3.4	1.8	1.9
FBOs	9.3	6.0	4.3	3.7	3.0	2.1	2.6	3.9	3.7	2.0	2.0
Other Investors	34.4	30.0	24.3	22.1	21.1	18.8	17.0	18.9	18.6	11.9	12.3
Totals	15.5	12.1	8.5	7.0	6.2	5.6	5.8	6.9	6.6	4.1	4.2
Total Nonaccrual Commitments (\$ Billion)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US Banking Institutions	46.8	35.6	22.0	12.9	7.9	5.4	7.6	15.0	15.6	8.8	8.8
FBOs	35.5	28.6	18.1	15.9	11.2	6.5	7.2	15.9	12.1	7.9	6.7
Other Investors	89.8	87.0	61.0	56.9	49.7	39.2	39.7	41.8	30.3	19.1	23.9
Totals	172.1	151.2	101.1	85.6	68.8	51.1	54.5	72.6	58.0	35.8	39.3

Note: Figures may not add to totals because of rounding