

# Shared National Credits Program

## 2009 Review

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

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## ***Executive Summary***

The interagency Shared National Credit (SNC) Review for 2009 found credit quality deteriorated to record levels with respect to large loans and loan commitments held by U.S. bank organizations, foreign bank organizations (FBO), and nonbanks such as securitization pools, hedge funds, insurance companies, and pension funds. Total loss of \$53 billion identified in the 2009 review exceeded the combined loss of the previous eight SNC reviews and nearly tripled the previous high in 2002. The declining credit quality is attributed to weak economic conditions affecting most industries and weak credit underwriting standards leading up to 2008.

Credit quality deteriorated across all entities, but nonbanks held 47 percent of classified assets in the SNC portfolio, despite making up only 21.2 percent of the SNC portfolio. U.S. bank organizations, which make up 40.8 percent of the SNC portfolio, held 30.2 percent of the classified assets. FBOs, which make up 38.0 percent of the SNC portfolio, held 22.8 percent of the classified assets.

Other key findings from the 2009 SNC review include:

- Criticized assets, which include SNCs rated special mention, substandard, doubtful, and loss, reached a record level of \$642 billion and represented 22.3 percent of the SNC portfolio compared with 13.4 percent in 2008. Total credit commitments of nearly \$2.9 trillion increased by \$92 billion, or a modest 3.3 percent.
- Classified assets, which include SNCs rated substandard, doubtful, and loss, rose to \$447 billion from \$163 billion in 2008 and represented 15.5 percent of the SNC portfolio compared with 5.8 percent in 2008. Classified dollar volume increased 174 percent from 2008.
- Credits rated special mention declined to \$195 billion from \$210 billion and represented 6.8 percent of the SNC portfolio, compared with 7.5 percent in 2008. A significant number of SNCs rated special mention in 2008 migrated to classified status (substandard or worse) in 2009.
- The severity of criticism increased, with the volume of SNCs classified as doubtful and loss rising to \$110 billion, up from \$8 billion in 2008—a 14-fold increase. In addition, nonaccrual loans increased nearly eight times from \$22 billion in 2008 to \$172 billion in 2009. Nonaccrual loans included \$32 billion classified loss and \$56 billion classified doubtful.
- The distribution of credits across entity types—U.S. bank organizations, FBOs, and nonbanks—remained relatively unchanged. U.S. bank organizations held 40.8 percent, while FBOs and nonbanks held 38.0 percent and 21.2 percent respectively. Nonbanks continued to hold a disproportionate share of classified assets compared with their total share of the SNC portfolio. Nonbanks held 47.0 percent of classified assets and 52.0 percent of nonaccrual loans. Federal Deposit Insurance Corporation (FDIC)-insured institutions held only 24.2 percent of classified assets and 22.7 percent of nonaccrual loans.
- Criticized volume was led by the media and telecommunications industry group with \$112 billion, finance and insurance with \$76 billion, and real estate and construction with \$72 billion. These three industry groups also represented the highest shares of criticized credits, with 17.3 percent, 11.7 percent, and 11.2 percent of criticized credits in the SNC portfolio, respectively.
- The review identified significant deterioration in credit quality of leveraged finance credits with these loans representing more than 40 percent of the dollar volume of total criticized assets. About 72 percent of the dollar volume of the 50 largest leveraged finance SNCs were criticized, which represents one-third of all criticized assets.

- Underwriting standards in 2008 improved from prior years, with examiners identifying fewer loans with structurally weak underwriting characteristics compared with 2007 and 2006 vintage credits. However, the SNC portfolio contained loans with structurally weak underwriting characteristics that were committed before mid-2007 that contributed significantly to the increase in criticized assets.

### ***About the SNC Review***

The annual SNC results are prepared and released jointly by the Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS). The 2009 SNC review included a review of \$1.2 trillion in credit commitments which provided dollar coverage of 41 percent of the \$2.9 trillion SNC portfolio. The 2009 SNC sample was heavily weighted toward non-investment grade and criticized credits. Results of the review are based on analyses prepared in the second quarter of 2009 using credit-related data provided by federally supervised institutions as of December 31, 2008, and March 31, 2009.

### ***Definitions***

- **Credit Facilities**—Credit facilities include syndicated loans and loan commitments, letters of credit, and commercial leases, as well as other forms of credit. Commitment amounts include both drawn and undrawn portions of the loans, or facilities. The review reports only the par amounts of commitments, which may differ from the amounts at which loans are carried by investors.
- **Criticized and Classified Assets**—Criticized assets include all assets rated special mention, substandard, doubtful, and loss. Classified assets include assets rated substandard, doubtful, and loss. The agencies' Uniform Loan Classification Standards along with the agencies' examination manuals, define these risk rating classifications.
- **Doubtful**—Doubtful assets have all the weaknesses of assets classified as substandard where the weaknesses make collection or liquidation in full, on the basis of available current information, highly questionable or improbable.
- **Loss**—Assets classified as loss are considered uncollectible and of so little value that their continuance as bankable assets 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 this asset 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.
- **SNC**—A shared national credit is any loan and/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 \$20 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. The threshold of \$20 million has remained unchanged since the first report in 1977.
- **Special Mention**—Special mention assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in further deterioration of the repayment prospects or in the institutions credit position in the future. Special mention assets are

not adversely classified and do not expose institutions to sufficient risk to warrant adverse classification.

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













