For Immediate Release
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Washington, D.C. — Credit quality declined sharply for loan commitments of $20 million or more held by multiple federally supervised institutions, according to the 32nd annual review of Shared National Credits (SNC).

The credit risk of these large loan commitments was shared among U.S. bank organizations, foreign bank organizations (FBO), and nonbanks such as securitization pools, hedge funds, insurance companies, and pension funds. 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 held 30.2 percent of the classified assets and made up 40.8 percent of the SNC portfolio.

The 2009 review covered 8,955 credits totaling $2.9 trillion extended to approximately 5,900 borrowers. Loans were reviewed and categorized by the severity of their risk—special mention, substandard, doubtful, or loss—in order of increasing severity. The lowest risk loans, special mention, had potential weaknesses that deserve management attention to prevent further deterioration at the time of review. The most severe category of loans, loss, includes loans that were considered uncollectible.

Key findings were:

- Criticized assets, which included SNCs classified as special mention, substandard, doubtful, or loss, reached $642 billion, up from $373 billion last year, and represented 22.3 percent of the SNC portfolio compared with 13.4 percent in 2008.
- SNC commitment volume increased $92 billion, or 3.3 percent, while the number of credits remained virtually unchanged.
- Classified assets, which included SNCs classified as substandard, doubtful, or loss, rose to $447 billion from $163 billion and represented 15.5 percent of the SNC portfolio, compared with 5.8 percent in 2008. Classified dollar volume increased 174 percent from a year ago.
- Special mention assets, which exhibited potential weakness and could result in further deterioration if uncorrected, declined to $195 billion from $210 billion and represented 6.8 percent of the SNC portfolio, compared with 7.5 percent in 2008.
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. Loans in nonaccrual status also increased nearly eight times to $172 billion from $22 billion. Nonaccrual loans included $32 billion in credits classified as loss and $56 billion classified doubtful.

The distribution of credits across U.S. bank organizations, foreign bank organizations, and nonbanks remained relatively unchanged. U.S. bank organizations held 40.8 percent, while FBOs and nonbanks held 38 percent and 21.2 percent, respectively. Nonbanks continued to hold a disproportionate share of classified assets. Nonbanks held 47 percent of classified assets and 52 percent of nonaccrual loans. Federal Deposit Insurance Corporation-insured institutions held 24.2 percent of classified assets and 22.7 percent of nonaccrual loans.

Criticized volume was led by the Media and Telecom industry group with $112 billion, Finance and Insurance with $76 billion, and Real Estate and Construction with $72 billion. These three 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 to credits written in 2007 and 2006. 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.

The SNC program was established in 1977 to provide an efficient and consistent review and classification of SNC, which includes 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 supervised institutions. Many of these large loan commitments are also shared with foreign banking organizations and nonbanks, including securitization pools, hedge funds, insurance companies, and pension funds.

In conducting the 2009 SNC review, agencies reviewed $1.2 trillion of the $2.9 trillion credit commitments in the SNC portfolio, or 41 percent of the credits by dollar volume. The 2009 SNC sample was heavily weighted toward non-investment grade and criticized credits. The 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.

Attachments below

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