Supervisory Insights

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FDIC

Supervisory Insights

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Supervisory Insights provides a forum for communicating emerging trends identified through the FDIC's examination and supervisory activities.

"Commercial Real Estate Loan Concentration Risk Management" examines commercial real estate (CRE) exposure in the banking industry and summarizes the findings of recent risk management supervisory activities of FDIC-supervised insured depository institutions (IDIs) with CRE lending concentrations.

"Leveraged Lending: Evolution, Growth and Heightened Risk" provides an overview of the leveraged lending market, discusses the risks associated with this type of lending, and shares observations from examinations at state nonmember IDIs and information from the Shared National Credit Program.

This issue of *Supervisory Insights* also includes an overview of recently released regulations and other items of interest.

We hope you find both articles in this issue of *Supervisory Insights* to be interesting and useful. We encourage our readers to provide feedback and suggest topics for future issues. Please email your comments and suggestions to SupervisoryJournal@fdic.gov.

Doreen R. Eberley
Director
Division of Risk Management Supervision

Commercial Real Estate Loan Concentration Risk Management

Introduction

This article provides an update on the extent of commercial real estate (CRE) lending exposure in the banking industry as a whole. The article also provides CRE loan risk management and governance trends observed at FDIC-supervised insured depository institutions (IDIs) with concentrations in CRE. These institutions represent over three-quarters of all IDIs with concentrations in CRE and 61 percent of all assets of IDIs with concentrations in CRE. The article discusses broad supervisory findings and does not establish new requirements or new supervisory guidance. Rather, it provides insights into current industry risk management practices and governance, based on examiners' views.

CRE Exposure in the Banking Industry

During the 2008 crisis, many IDIs failed or experienced problems because of large levels of poorly underwritten and administered CRE loans and, in particular, acquisition, development, and construction (ADC) loans, relative to their capital.[1] These IDIs also often experienced rapid asset growth, relatively greater use of wholesale funding sources, and lower capital levels as compared with other IDIs.

After shrinking following the 2008 financial crisis, the dollar volume of CRE lending at all IDIs began to grow again in 2013. Since 2015, CRE loan growth at IDIs has been slowing (see Chart 1). Average quarterly CRE loan growth figures for 2015, 2016, 2017, and 2018 are $44.9 billion, $43.4 billion, $32.6 billion, and $26.8 billion, respectively.

[1] See for example, FDIC, *Crisis and Response: An FDIC History, 2008–2013.* Washington, DC, 2017; https://www.fdic.gov/bank/historical/crisis/; FDIC Office of the Inspector General, Comprehensive Study on the Impact of the Failure of Insured Depository Institutions, EVAL-13-002, January 3, 2013, https://www.fdicoig.gov/reports/audits-and-evaluations/comprehensive-study-impact-failure-insured-depository-institutions; and FDIC, Office of Inspector General, Acquisition, Development, and Construction Loan Concentration Study, EVAL-13-001, October 2012, https://www.fdicoig.gov/sites/default/files/reports/2022-08/13-001EV.pdf

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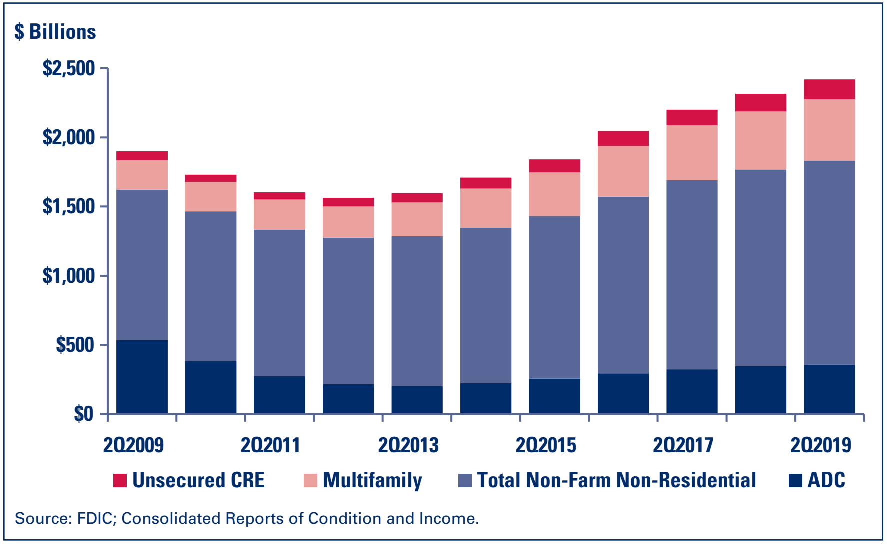
However, with the addition of $32.4 billion in second quarter 2019, the total volume of CRE loans held by all IDIs reached a new high of more than $2.4 trillion as of June 30, 2019 (see Chart 2). Non-farm, non-residential loans continue to represent the largest CRE subcategory at nearly $1.5 trillion. Multi-family loans have grown to $444.9 billion, and ADC loans total about $357.1 billion.

Chart 2: Commercial Real Estate Loans (by Type) Held by All IDIs



Source: FDIC; Consolidated Reports of Condition and Income.

Table 1 – Select Second Quarter 2019 Median Data for ADC and CRE Concentrated IDIs and Other IDIs

	ADC IDIs	CRE IDIs	Other IDIs
Wholesale Funds to Total Assets	14.73%	18.49%	13.61%
Tier 1 Leverage Capital Ratio	10.26%	10.15%	11.02%
Total Capital Ratio	13.75%	12.88%	16.88%
ALLL to Total Loans	1.15%	0.99%	1.19%
Past Due and Nonaccrual Ratio	0.88%	0.60%	1.21%
Pre-tax Return on Assets	1.42%	1.38%	1.27%
Net Interest Margin	4.12%	3.78%	3.76%
One Year Total Loan Growth	7.95%	12.03%	4.58%
One Year Total Asset Growth	7.58%	12.28%	3.62%

Source: FDIC; Consolidated Reports of Condition and Income.

CRE is a widely held asset class. As of June 30, 2019, more than 98 percent of all IDIs hold CRE loans. Although not all of these IDIs specialize in CRE lending, a large number do, and holding a significant level of these credits could heighten an IDI's vulnerability to a CRE market downturn.

Table 1 reflects a point-in-time snapshot of the performance of all concentrated IDIs[2] compared to all other IDIs as of June 30, 2019. As displayed in the table, concentrated CRE and ADC lenders use wholesale funding sources more than other IDIs. Additionally, the capital cushion of concentrated IDIs is lower than that of other IDIs (as measured by the tier 1 leverage capital and the total capital ratios), although earnings, as measured by pre-tax return on assets, are somewhat higher at the concentrated IDIs as compared to the other IDIs.

In terms of asset quality, the median past due and nonaccrual ratio for all other IDIs is higher than the corresponding median ratios for concentrated IDIs; however, these concentrated IDIs are growing faster than the other IDIs, and growth in loan portfolios can mask building risk as unseasoned loans may drive down delinquency ratios. Furthermore, protection provided by the Allowance for Loan and Lease Losses (ALLL) is lower for the concentrated IDIs compared to other IDIs.

[2] For purposes of this article, a "concentrated IDI" is defined as an IDI with total ADC loans greater than 100 percent of the IDI's total capital (ADC IDIs), or total CRE loans greater than 300 percent of the IDI's total capital, and the CRE loan portfolio has increased by 50 percent or more during the prior 36 months (CRE IDIs). Total CRE does not include loans for owner-occupied properties. Approximately 596 IDIs active as of August 19, 2019, exceeded these criteria in at least one quarter during the four quarter period ending June 30, 2019. These concentration categories are for analytical purposes and do not in any way represent a ceiling or limit for IDIs.

Regulatory Requirements Regarding Risk Management and Governance

Assessing the effectiveness of an FDIC-supervised IDI's risk management practices continues to be a critical part of the FDIC's forward-looking, risk-focused supervision. For concentrated FDIC-supervised IDIs, examiners assess the IDI's risk management and governance framework in accordance with Part 365 of the FDIC Rules and Regulations, *Real Estate Lending Standards*, and Part 364 of the FDIC Rules and Regulations, *Standards for Safety and Soundness*.[3]

More specifically, Section 365.2 of the FDIC Rules and Regulations requires FDIC-supervised IDIs to adopt and maintain written policies that establish appropriate limits and standards for extensions of credit secured by real estate. Among other things, these policies must establish portfolio diversification standards; prudent underwriting standards; loan administration procedures; and documentation, approval, and reporting requirements to monitor compliance with the IDI's policies.

Additionally, Section 365.2 requires FDIC-supervised IDIs to monitor conditions in the real estate market in their lending areas to make sure that their policies continue to be appropriate for current market conditions and also to ensure that policies consider the *Interagency Guidelines for Real Estate Lending Policies*, which are included as Appendix A to Subpart A of the regulation.

Section 39 of the *Federal Deposit Insurance Act* requires each Federal banking agency to establish safety and soundness standards by regulation or guideline. The FDIC establishes these standards by guidelines which appear in Appendix A to Part 364. Among other things, the standards described in Appendix A, titled *Interagency Guidelines Establishing Standards for Safety and Soundness* (Interagency Safety and Soundness Standards), provide that IDIs:

- have internal controls and information systems that are appropriate to the size of the institution and the nature, scope, and risk of its activities;
- consider the source, volatility, and use of funds that support asset growth;
- conduct periodic asset quality reviews to identify problem assets;
- establish allowances for loan and lease losses sufficient to absorb estimated losses; and
- maintain prudent credit underwriting practices that take adequate account of concentration of credit risk and establish a system of independent, ongoing credit review and appropriate communication to management and to the board of directors.

When FDIC examiners identify concerns with risk management practices at an FDIC-supervised IDI, they communicate such information to an IDI's management in the form of "supervisory recommendations." Supervisory recommendations are intended to help the IDI improve its practices, operations, or financial condition. Conditions leading to supervisory recommendations generally are correctable by the IDI in the normal course of business. However, Matters Requiring Board

[3] See Part 365 of the FDIC Rules and Regulations at https://www.fdic.gov/regulations/laws/rules/2000-8700.html and Part 364 of the FDIC Rules and Regulations at https://www.fdic.gov/regulations/laws/rules/2000-8600.html.

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Attention (MRBA), a subset of supervisory recommendations, identify issues or risks of significant importance that require the attention of the IDI's board of directors and senior management.[4] MRBA are an FDIC communication intended to inform the IDI of the FDIC's views about changes needed in its practices, operations, or financial condition to help directors prioritize their efforts to address examiner concerns, identify emerging problems, and correct deficiencies before the IDI's condition deteriorates (or to keep the IDI viable if conditions have already deteriorated).

To inform its view of current trends, the FDIC considered high-level findings in the form of supervisory recommendations and MRBA from more than 470 supervisory activities completed at concentrated FDIC-supervised IDIs over a two-year period ending March 2019.[5] These IDIs held composite ratings of "1," "2," or "3" at the time the supervisory activities began.[6]

The preponderance of the IDIs remain satisfactorily rated. However, examiners identified one or more CRE-related MRBA in about 24 percent of the supervisory activities. CRE-related supervisory recommendations and MRBA most often addressed board/management governance and oversight, portfolio sensitivity analyses, portfolio management, and funding strategies. Although instances of MRBA for CRE loan underwriting were infrequent, general supervisory recommendations for CRE loan underwriting were more widespread. These areas are explored below.

Board/Management Oversight

A sound CRE lending program begins with the direction and oversight of the IDI's board of directors and senior management. Over 56 percent of the reviews yielded supervisory recommendations regarding board/management oversight, and roughly 27 percent of that pool with supervisory recommendations included MRBA. Supervisory recommendations and MRBA regarding oversight most commonly addressed inadequate establishment and monitoring of concentration limits and sub-limits, improvements needed in loan policy exception tracking and reporting, and concerns about strategic planning.

In some instances, concentration limits or sub-limits were absent from written policies, and in other cases, IDI management merely had increased the policy's concentration limit(s) to avoid exceptions. In certain instances, concentration limits appeared inappropriate when considering factors such as an IDI's existing concentration level(s), strategic goals, or management's experience level.

Supervisory recommendations regarding inadequate tracking and reporting of policy exceptions indicate opportunities for improvement in management's policy enforcement. Policies, even when appropriate,

[4] See page 16.1-2 of the Report of Examination instructions at https://www.fdic.gov/regulations/safety/manual/section16-1.pdf.

[5] Data as of May 21, 2019. Some data, while audited internally for quality, was manually tabulated and interpreted. A large majority of the supervisory activities were examinations by the FDIC, some of which were joint or concurrent examinations with the applicable state authorities. Some IDIs had more than one supervisory activity occur during this timeframe.

[6] IDIs with composite ratings of "4" and "5" are excluded as the financial conditions of these IDIs are already being impacted, and such IDIs are typically already subject to formal enforcement actions.

generally will not be effective if management is not properly enforcing them. Untracked or poorly-tracked policy exceptions may lead to a credit culture and risk profile exceeding the risk tolerance established by the IDI's board of directors.

With regard to strategic planning, in some instances, management did not incorporate CRE lending considerations at all. In other cases, considerations in the strategic plan did not reflect actual practices or were based on unrealistic or not well-developed assumptions.

Portfolio-level Sensitivity Analyses

As described in the "asset quality" provision of the Interagency Safety and Soundness Standards, an IDI should "consider the size and potential risks of material asset concentrations" and "provide periodic asset reports with adequate information for management and the board of directors to assess the level of asset risk."[7] Portfolio-level sensitivity analyses can help IDIs assess the extent of potential exposure to a downturn in CRE markets. Such analyses can inform management of an IDI's specific vulnerabilities, allowing them to focus on effective risk-mitigation actions. Sensitivity analyses also may help determine the appropriateness of existing policies, strategies, targeted markets, and products. The sophistication of portfolio sensitivity analyses will vary by IDI based on the size, complexity, and risk characteristics of the IDI's CRE portfolio.

Significant progress has been made by many FDIC-supervised IDIs with regard to portfolio-level sensitivity analyses. However, in some cases, portfolio-level analyses remain less evolved than necessary based on the IDI's CRE portfolio. Across the reviews of IDIs with higher levels of CRE, approximately 41 percent reported supervisory recommendations related to portfolio-level sensitivity analyses, with 22 percent of that pool including MRBA.

Many concerns center on the overall implementation or quality of the sensitivity analyses. Others relate to failure to fully consider the results for budgeting, capital planning, and strategic planning purposes. More specifically, some supervisory recommendations noted that management performed calculations, but did not integrate results into the IDI's oversight and planning processes or did not document the integration. In some cases, assumptions did not appear realistic or comprehensive or were based on industry data rather than the IDI's own data.

Portfolio Management

CRE loan concentrations can expose an IDI to unacceptable risk if not properly managed and monitored, even when CRE loans are prudently underwritten as part of the initial transactions. Supervisory recommendations regarding portfolio management were evident in 37 percent of the reviews; over 28 percent of that pool involved MRBA. Portfolio monitoring emerged as a more common supervisory recommendation, with the MRBA primarily centered on establishing and monitoring limits for concentrations and pertinent sub-segments.

On a related note, management information systems (MIS) are an important tool to enable management and the board of directors to oversee

[7] Refer to footnote 3.

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the CRE portfolio. According to the "internal controls and information systems" provision of the Interagency Safety and Soundness Standards, an IDI should have information systems that are appropriate to its size and the nature, scope, and risk of its activities. Such systems should not only provide for an organizational structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies, but also provide for:

- effective risk assessment;
- timely and accurate financial, operational, and regulatory reports; and
- compliance with applicable laws and regulations.

In 19 percent of the reviews, supervisory recommendations specific to MIS were reported, with 20 percent of that subset incorporating MRBA. The concerns often related to the quality and lack of granularity of portfolio stratifications produced by the FDIC-supervised IDI's MIS.

Contingency planning was another common theme among portfolio management supervisory recommendations. Contingency plans address possible actions for reducing or mitigating CRE concentration risk while ensuring the ongoing adequacy of capital protection. Contingency planning was absent in some cases. In other cases, contingency planning was too rudimentary for the complexity of the portfolio and warranted further development.

Funding Strategies

Over 11 percent of the reviews of CRE concentrated FDIC-supervised IDIs yielded a liquidity component rating of "3" or worse. Further, over 28 percent of the reviews reported supervisory recommendations regarding portfolio funding strategies, with over 45 percent of that subset containing MRBA.

The more common supervisory recommendation themes centered on improvements needed in the monitoring of funding sources supporting the CRE loan portfolio and its growth. Other common themes were weaknesses in liquidity sensitivity analyses and contingency funding planning. These included the need for supportable and robust assumptions and expanded stress scenarios during sensitivity analysis. This is particularly important for concentrated IDIs, because as noted, they are growing their assets faster than other IDIs.

The intricacy of contingency funding plans, inclusive of execution timeframes, will vary by IDI based on the complexity and risk characteristics of the IDI's funding strategies.

Underwriting

The Interagency Safety and Soundness Standards require an IDI to establish and maintain prudent credit underwriting practices that, among other things: "Provide for consideration, prior to credit commitment, of the borrower's overall financial condition and resources; the financial responsibility of any guarantor; the nature and value of any underlying collateral; and the borrower's character and willingness to repay as agreed."[8]

[8] Refer to Footnote 3.

The large majority of the FDIC-supervised IDIs reviewed have overall sound underwriting practices. Even so, CRE underwriting-related supervisory recommendations were observed for more than 27 percent of the reviews, with about 14 percent of that subset involving MRBA. The nature of supervisory recommendations varied widely, but more commonly related to inadequate analyses of repayment capacity, including inadequate global debt service coverage analyses. Such supervisory recommendations addressed situations in which there was not a clear demonstration of the borrower's capacity to meet a realistic and reasonable payment plan. For instance, some IDIs were having problems calculating global cash flows, and, in other cases, not completing or considering global cash flow analyses at all, when it was applicable.

Loan pricing, another key consideration during the underwriting process, is affected by competition. Credit surveys and banker and examiner feedback characterize the lending landscape as increasingly competitive among IDIs as well as nonbanks. As shown in Table 1, the median pre-tax returns on average assets and the net interest margins at concentrated IDIs remain higher than those for all other IDIs; however, returns on specific portfolios are not reported in the IDIs' Consolidated Reports of Condition and Income. Some instances of fairly generous interest-only terms or other relaxed structures (such as extended amortizations) were noted in supervisory recommendations and could be the result of competitive pressure.

Another more common category of underwriting-related supervisory recommendations is exceptions to underwriting policies, which emphasizes the importance of management implementing appropriate tracking and reporting mechanisms.

Conclusion

Supervisory activities at FDIC-supervised IDIs show that concentrated IDIs are generally managing risk adequately. Nevertheless, as discussed in this article, examiners have noted areas where CRE risk management frameworks can be improved. The FDIC encourages IDIs that engage in significant levels of CRE lending - or any other type of lending - to carefully consider the quality and comprehensiveness of concentration risk management practices and take appropriate action when shortfalls are apparent.

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Leveraged Lending: Evolution, Growth and Heightened Risk

Introduction

Leveraged lending provides credit to commercial businesses with higher levels of debt and also helps companies obtain funding for transactions involving leveraged buyouts (LBOs), mergers and acquisitions (M&A), business recapitalizations, and business expansions. Many commercial businesses successfully utilize and repay these loans; however, high debt levels coupled with lower levels of liquidity may reduce businesses' flexibility to respond to changes in economic conditions. The recent period of economic expansion combined with low interest rates provided companies with the opportunity to increase their debt levels over the past decade. As a result, more businesses sought, and received, leveraged loans.

The FDIC recognizes the important role that leveraged lending has in the global market economy, as well as the important role insured depository institutions (IDIs) serve in providing credit to companies through originating and participating in leveraged loans. Underwriting and bank risk-management practices are expected to be commensurate with the potential heightened risk associated with this type of lending, and IDIs and the leveraged-lending market as a whole benefit from the origination of soundly underwritten loans.[1]

The FDIC and other Federal Regulatory Banking Agencies (FBAs) closely monitor industry leverage trends, and banks' underlying risk-management practices associated with this type of lending.

The interagency Shared National Credit (SNC) Program is conducted twice each year and is a primary mechanism for the FBAs to monitor leveraged lending in IDIs related to portfolio growth, underwriting trends, and risk management practices. A SNC is defined as a loan greater than $100 million made by three or more institutions, which includes various types of loans, in addition to leveraged loans. The FBAs publish annual results of the combined semi-annual SNC review, which includes details on leveraged lending trends and associated risks. The FBAs also conduct targeted examinations of leveraged lending activity in addition to ongoing supervision to assess risk in this area.

Both bank and non-bank entities are involved in leveraged debt financing. Banks held approximately 63 percent of leveraged loan commitments in the SNC portfolio as of December 31, 2018, compared to 37 percent held by non-banks. This article focuses primarily on exposure in the banking sector, and the content is based on observations from SNC results and examination findings at FDIC-supervised IDIs.

Leveraged Lending Defined

Leveraged lending has no universal definition and is not defined in exact terms by regulatory agencies. Supervisory guidance establishes a range of potential criteria,[2] and IDIs generally consider overall borrower risk, loan pricing, and measures of leverage (in terms of debt to income) when defining leveraged credits within bank policies. Credit

[1] See, e.g., the Interagency Safety and Soundness Standards in Appendix A of Part 364 of the FDIC's Rules and Regulations, and the risk management practices outlined in the Interagency Guidance on Leveraged Lending.

[2] https://www.fdic.gov/news/news/financial/2013/fil13013.pdf.

rating agencies typically define leveraged lending as loans rated below investment grade level, which is categorized as Moody's Ba3 and Standard & Poor's BB-, or lower, and for loans to non-rated companies that have higher interest rates than typical loan interest rates.

The SNC program tracks leveraged lending based on information reported by IDIs, and therefore accurate reporting by institutions is critical. As disclosed in the January 2019 SNC public statement, bank-reported leveraged credits in 2018 totaled approximately $2.1 trillion, of which $700 billion was investment grade. This level is consistent with the leveraged loan market size noted by the rating agencies at $1.2 to 1.3 trillion, which excludes investment grade

Leveraged Lending Risk

Results from SNC reviews have highlighted building risk in terms of dollar volume and loan structures. In 2014, the FBAs issued a "Leverage Lending Supplement" that highlighted underwriting and risk management weaknesses in this sector.[3] Since then, risk management practices have improved significantly at most IDIs involved in structuring and underwriting leveraged transactions. However, credit structures themselves have continued to weaken reflecting heightened demand for leveraged credit and non-bank preferences on terms. Findings from the 2018 SNC review,[4] state that "many leveraged loan transactions possess weakened transaction structures and increased reliance upon revenue growth or anticipated cost savings and synergies to support borrower repayment capacity." IDIs purchasing leveraged loans should be fully aware of the risk and possess the skills to measure, monitor, and control it.[5]

The increased risk in leveraged lending is illustrated in the volume of leveraged loans that are listed for Special Mention[6] or subject to adverse classification by the FBAs. Of the $295 billion in Special Mention and adversely classified loans within the total $4.4 trillion SNC portfolio, leveraged loans comprise 73 percent of special mention commitments, 87 percent of substandard[7] commitments, 45 percent of doubtful[8] commitments,

[3] https://www.fdic.gov/news/news/press/2014/pr14096.html.

[4] https://www.fdic.gov/news/news/press/2019/pr19004a.pdf.

[5] The Interagency Safety and Soundness Standards in Appendix A of Part 364 of the FDIC's Rules and Regulations, as required by Section 39 of the *Federal Deposit Insurance Act*, addresses the importance of prudent credit underwriting, loan documentation requirements, and asset quality controls and monitoring practices. In addition, IDIs engaged in leveraged lending should be aware of the risk management practices outlined in the Interagency Guidance on Leveraged Lending.

[6] 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 rated and do not expose institutions to sufficient risk to warrant adverse rating.

[7] 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.

[8] Doubtful commitments have all the weaknesses of commitments classified substandard and when the weaknesses make collection or liquidation in full, on the basis of available current information, highly questionable or improbable.

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and 76 percent of non-accrual[9] loans. A material downturn in the economy could result in a significant increase in classified exposures and higher losses.

Non-bank investors in leveraged loans are primarily collateralized loan obligations (CLOs), pension funds, exchange-traded funds (ETFs), and managed funds. These entities have increased their participation in the leveraged-lending market via purchases of loans or direct underwriting and syndication of exposure and more leveraged lending risk is being transferred to these entities. This trend and heightened competition have caused a shift from traditional IDI loan structures. In order to satisfy investment demands, banks began to structure leveraged lending products that more closely resemble a bond than a corporate loan. For example, leveraged term-loans carry few if any financial-maintenance covenants. Additionally, these loans often require only minimal debt amortization, which underscores that the likely repayment source is debt refinance.

Large IDIs that syndicate and arrange a majority of the leveraged loans hold few if any of these term-loan facilities on their books, but often provide funding for the revolving-credit facilities. A revolving credit facility provides the borrower with the flexibility to draw down, repay, and withdraw again. During an allotted period of time, the facility allows the borrower to repay the loan or take it out again. While IDIs traditionally arrange and distribute leveraged loans, and serve as administrative agents for those loans, non-bank direct lenders have become more involved in originating and syndicating leveraged loans in recent years.

Effective Risk Management

The *Interagency Guidelines Establishing Standards for Safety and Soundness*[10] (Guidelines) outline the standards the FDIC uses to identify and address potential safety and soundness concerns and ensure action is taken to address those concerns before they pose a risk to the Deposit Insurance Fund. The Guidelines set forth a framework for appropriate risk management that can be applied to leveraged lending based on the size of the institution and the nature, scope and risk of its activities.

Among other expectations, the Guidelines state that an institution should have:

- internal controls and information systems that provide for effective risk assessment; timely and accurate financial, operational, and regulatory reports; and adequate procedures to safeguard and manage assets;
- loan documentation practices that enable the institution to make an informed lending decision and to assess risk, as necessary, on an ongoing basis; identify the purpose of a loan and the source of repayment, and assess the ability of the borrower to repay the indebtedness in a timely manner; demonstrate appropriate administration and monitoring of a loan; and take account of the size and complexity of a loan;

[9] 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.

[10] https://www.fdic.gov/regulations/laws/rules/2000-8600.html.

- prudent credit-underwriting practices that are commensurate with the types of loans the institution will make and that consider the terms and conditions under which they will be made; consider the nature of the markets in which loans will be made; provide for consideration, prior to credit commitment, of the borrower's overall financial condition and resources, the financial responsibility of any guarantor, the nature and value of any underlying collateral, and the borrower's character and willingness to repay as agreed; establish a system of independent, ongoing credit review and appropriate communication to management and to the board of directors; take adequate account of concentration of credit risk; and are appropriate to the size of the institution and the nature and scope of its activities; and
- a system to identify problem assets and prevent deterioration in those assets; conduct periodic asset-quality reviews to identify problem assets; and provide periodic asset reports with adequate information for management and the board of directors to assess the level of asset risk.

Risk management programs for IDIs that originate or arrange leveraged loans or participate in a large volume of leveraged loans should be more fully developed and comprehensive versus IDIs whose leveraged lending activities are limited in volume and size relative to its overall capital and reserves.

Underwriting Trends

In accordance with the Guidelines, IDIs are expected to develop policies and procedures that identify and measure risk, monitor leveraged credit, and implement sound underwriting and risk management practices. As mentioned, leveraged loan volume has increased and loan structures have weakened. This trend has, in part, been driven by increased competition for such products, as well as by the increasing fees generated by originating these credits. Examination data shows that some IDIs have purchased participations in leveraged loans without fully assessing the risk or developing appropriate policies and procedures.

In recent years, lenders have allowed covenant protections to erode. This trend results in fewer lender protections. This point is illustrated by Moody's in its Loan Covenant Quality Indicator (LCQI) graph of newly originated leveraged loans as noted in Moody's Investors Service press release dated April 24, 2019. and is supported by published findings of annual SNC reviews.

Since 2012, Moody's has tracked the quality of covenants in newly originated loans for the quality of financial covenants, structural priority, restrictive payments, debt issuance, investment and asset sales, and general lender rights. The graph illustrates the weaker trend of covenant protection since 2016, which highlights the risk faced by IDIs lending to leveraged borrowers.

Leveraged Lending

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As mentioned previously, the 2018 SNC review found that leveraged loan transactions possessed weakened transaction structures that may limit borrower repayment capacity, and by extension, cause losses at IDIs. These weaknesses are discussed more fully below.

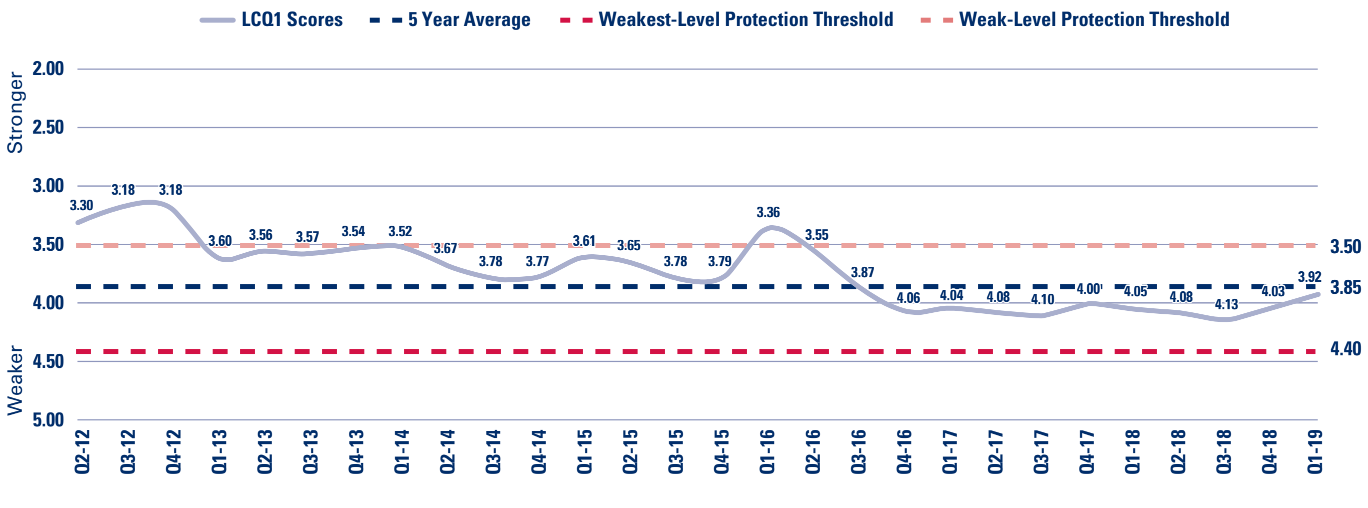
Capital Structure and Lender Priority

Leveraged borrowers use a variety of debt and equity to fund acquisitions, asset purchases, dividends, and refinancing transactions. IDIs typically provide all of the first lien senior secured revolving lines of credit as well as some of the first lien senior secured term loans in leveraged transactions. As mentioned, leveraged first lien term loans may have limited amortization requirements. Junior debt facilities typically require no amortization.

The capital structure may also include junior debt such as senior secured bonds, subordinated mezzanine debt, or other hybrid equity facilities that only require interest payments or payment-in-kind (PIK). Junior debt has historically provided additional protection to senior secured lenders; however, the protection has declined in recent years, as more leveraged-loan transactions contain only first lien senior secured debt in the capital structure.

This trend implies greater reliance on lender protections, which include the value of the entity as a going concern, the value and quality of collateral, support from sponsors and guarantors, and covenant protections. Most leveraged loans are secured by all business assets and common stock of the company (Enterprise Value), which results in valuing the company based on its ability to generate recurring cash flow. Accordingly, the value of a company can rapidly fluctuate. Examinations have identified instances in which IDIs failed to adequately monitor enterprise value, or where enterprise valuation methodologies were inadequate. Failure to monitor this lender protection could result in insufficient reserves in the event of borrower default.

Loan covenant quality scores, 2012-Q1 2019



Source: Moody's Investors Service

Repayment Capacity

Effective analysis of a leveraged borrower's debt repayment capacity can be challenging due to the complex capital structures and rapid growth strategies that are typical in leveraged lending. IDIs develop models and analyze repayment capacity using cash flow assumptions developed by the borrower or sponsor. Examiners carefully scrutinize assumptions promoting overly aggressive EBITDA add-backs that do not reflect a 'most likely' scenario in IDI repayment models, and have identified instances in which repayment modeling is not well supported or overly aggressive.

Credit Agreement Protections

The loosening of terms within credit agreements in recent years presents a heightened level of risk for IDIs. For example, many credit agreements allow borrowers the right to obtain additional debt without the current lender's approval, an ability known as incremental facilities. The additional incremental debt can result in elevated leverage and dilute collateral protection.

Financial-maintenance covenants are also becoming rare in leveraged-loan structures. Financial-maintenance covenants play a vital role as an early warning sign of deterioration in a leveraged borrower. For many newly originated leveraged-loan transactions, protection consists of "springing" covenants that limit the use of revolving credit facilities only after the revolver is drawn to a specified level.

Leveraged-loan credit agreements are also structured to allow a borrower the ability to sell, transfer, and purchase assets in the normal course of typical operations, which can expose lenders and investors to reduced cash and collateral protection and can affect repayment and refinancing risk. Recent examples include companies that have used these "carve-outs" from the collateral pool to move business lines and intellectual properties to affiliates of the borrower, which resulted in lower potential borrower enterprise value.

Leveraged-loan credit agreements often require a certain agreed-upon amount of excess cash to be used to pay debt, but carve-out provisions in recent credit agreements often allow cash to be used for dividends, investments, capital expenditures, and other purposes before being included in the excess cash flow calculation that is used to determine the amount for debt repayment.

Examiners have identified cases of limited identification and assessment of these types of underwriting and credit agreement weaknesses, which can minimize the efficacy of credit risk grading, understanding of portfolio risk, and appropriateness of loan and lease loss reserves.

Loan Review

An effective loan review structure serves to mitigate leveraged-lending risk, and given the complexities and risk inherent within a leveraged-loan portfolio, the scope and independence of the process is critical. A common scope may include consideration of the reasonableness of cash flow projection assumptions, adequacy of loan stress testing, compliance with covenants, adequacy of enterprise valuations, and ultimately the accuracy of the credit rating.

Examinations have identified instances in which loan review frequency, depth, and quality has been insufficient to provide a strong independent assessment of credit administration and underwriting

Leveraged Lending

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relative to leveraged lending. Further, in some other instances, loan review staff or outsourced loan review personnel were not trained to assess the unique credit characteristics of leveraged borrowers.

Syndications, Participations, and Sub-Participations

Leveraged loans can be purchased directly from agent banks or indirectly through third parties such as bankers' banks or non-bank financial institutions. Third-party providers can provide smaller investment amounts for IDIs, as well as provide other fee-based services. Third-party providers can also assist with the risk management function, generally for a fee, which can include help with underwriting, risk rating, enterprise valuations, and ongoing credit review.

Outsourcing any risk management function comes with risk, and examinations have identified situations where IDIs have become overly reliant on the vendor. IDIs are expected to maintain sound vendor management programs when purchasing leveraged loans from a third party, which includes independent analysis of each credit.

Management and Board Oversight

The establishment of effective risk tolerance, measurement, and reporting is critical. Examinations have identified instances in which policies and procedures do not have clear portfolio and capital limits on the volume and type of leveraged credits, including limits to any single leveraged borrower. Examinations have also identified instances in which policies and procedures are inadequate in terms of monitoring and risk-ranking leveraged credits.

Summary

Leveraged lending presents heightened risk for IDIs if internal risk management programs are not established and effectively managed. Leveraged lending volumes, held by banks and non-banks, have continued to increase. As a result, regulatory scrutiny of this sector will continue.

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Overview of Selected Regulations and Supervisory Guidance

This section provides an overview of recently released regulations and other items of interest, arranged in reverse chronological order. Press Release (PR) and Financial Institution Letter (FIL) designations are included so the reader can obtain more information.

ACRONYMS and DEFINITIONS	
CFPB	Consumer Financial Protection Bureau
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FRB	Federal Reserve Board
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
Federal bank regulatory agencies	FDIC, FRB, and OCC
Federal financial institution regulatory agencies	CFPB, FDIC, FRB, NCUA, and OCC

Subject	Summary
New Appraisal Threshold for Residential Real Estate Loans (FIL-53-2019, PR-83-2019, September 27, 2019)	The federal bank regulatory agencies jointly issued an amended appraisal rule that increases the threshold for residential real estate transactions requiring an appraisal from $250,000 to $400,000. For transactions exempted by the $400,000 threshold, an evaluation is required. Additionally, the appraisal rule incorporates the appraisal exemption for rural residential properties provided by the *Economic Growth, Regulatory Relief, and Consumer Protection Act* and similarly requires evaluations for these exempt transactions. The appraisal rule also requires appraisals for federally related transactions to be subject to appropriate review for compliance with Uniform Standards of Professional Appraisal Practice. See https://www.fdic.gov/news/news/financial/2019/fil19053.html
Listening Sessions on Supervisory Appeals and Dispute Resolution Processes (FIL-52-2019, September 24, 2019)	The FDIC hosted a series of listening sessions regarding its supervisory appeals and dispute resolution process in the fourth quarter of 2019. The sessions offered an opportunity for bankers and other interested parties to provide individual input and recommendations regarding these processes, as well as to provide individual suggestions regarding the role of the Office of the Ombudsman in assisting in resolving disagreements. See https://www.fdic.gov/news/news/financial/2019/fil19052.html
Supplemental Questions and Answers Related to the FDIC Statement of Policy on Applications for Deposit Insurance (FIL-51-2019, September 23, 2019)	The FDIC issued Supplemental Questions and Answers (Q&As) to aid organizing groups in developing applications for deposit insurance. The Supplemental Q&As contains relevant information regarding application and publication requirements, such as not needing to identify a main office address at the time of submission, but having to identify a proposed chief executive officer, and is available at https://www.fdic.gov/news/inactive-financial-institution-letters/2019/fil19051a.pdf. See https://www.fdic.gov/news/inactive-financial-institution-letters/2019/fil19051.html

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Subject	Summary
FDIC's Office of the Ombudsman Publishes *2018 Annual Report* (PR-81-2019, September 23, 2019)	The FDIC's Office of the Ombudsman published its *2018 Annual Report* outlining the office's structure, outreach activities, and goals. The annual report seeks to promote transparency relative to the FDIC's activities and is available at https://www.fdic.gov/about/ombudsman/2018-oo-annual-report.pdf. See https://www.fdic.gov/news/news/press/2019/pr19081.html
Changes to the FDIC's Post-Examination Survey Process (FIL-50-2019, September 19, 2019)	The FDIC is notifying FDIC-supervised financial institutions that, effective October 1, 2019, the Office of the Ombudsman will administer the Post-Examination Survey Process. The Office of the Ombudsman is independent of the supervisory process, reports directly to the FDIC Chairman's Office, and is a confidential resource for banks. The change is designed to promote additional candid feedback, improve response rates, and further ensure confidentiality of survey responses. See https://www.fdic.gov/news/news/financial/2019/fil19050.html
FDIC Finalizes Rules to Simplify Capital Calculation for Qualifying Community Banking Organizations and to Early Adopt Certain Related Simplifications to the Regulatory Capital Requirements (PR-80-2019, September 17, 2019)	The FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations as required by the *Economic Growth, Regulatory Relief, and Consumer Protection Act*. The Community Bank Leverage Ratio (CBLR) framework, which will be available for banks to use in their March 31, 2020 Call Report, is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. To qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio greater than 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. The FDIC also finalized a rule that permits non-advanced approaches banking organizations to use the simpler regulatory capital requirements for mortgage-servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and minority interest when measuring their tier 1 capital as of January 1, 2020. See https://www.fdic.gov/news/news/press/2019/pr19080.html
FDIC Releases Results of Summary of Deposits Annual Survey (PR-79-2019, September 13, 2019)	The FDIC released the results of its annual survey of branch office deposits for FDIC-insured institutions. The results provide deposit totals for each of the more than 86,000 domestic offices operated by more than 5,300 FDIC-insured commercial and savings banks, savings associations, and U.S. branches of foreign banks. The latest Summary of Deposits is as of June 30, 2019, and is available at https://www5.fdic.gov/sod/sodMarketBank.asp?barItem=2. See https://www.fdic.gov/news/news/press/2019/pr19079.html
Request for Comments on Interest Rate Restrictions Applicable to Institutions That Are Less Than Well Capitalized (FIL-49-2019, September 9, 2019; PR-72-2019, August 20, 2019)	The FDIC issued a notice of proposed rulemaking related to interest rate restrictions that apply to less than well-capitalized insured depository institutions. Under the proposed rule, the FDIC would amend the methodology for calculating the national rate and national rate cap for specific deposit products to provide a more balanced, reflective, and dynamic national rate cap. The proposed rule would also simplify the current local rate cap calculation. Additionally, the proposed rule is seeking comment on alternative approaches to setting the national rate caps. Comments will be accepted until November 4, 2019. See https://www.fdic.gov/news/news/financial/2019/fil19049.html

Subject	Summary
Interagency Webinar: Applying Model Risk Management to Current Expected Credit Losses (CECL) Models at Large Banks (FIL-48-2019, August 27, 2019)	The federal bank regulatory agencies jointly hosted a webinar on September 3, 2019, to clarify the use of model risk management by large institutions for model-based processes employed in their CECL frameworks. Webinar materials were archived for future viewing. See https://www.fdic.gov/news/news/financial/2019/fil19048.html
Risk-Focused, Forward-Looking Safety and Soundness Supervision (FIL-47-2019, August 27, 2019)	The FDIC is updating its *Risk Management Manual of Examination Policies* to incorporate a new section titled "Risk Focused, Forward-Looking Safety and Soundness Supervision." The section describes the FDIC's long-standing philosophy and methods for supervising institutions by focusing on the areas presenting the greatest risks and is included in the new Part VI of the manual titled "Appendix: Examination Processes and Tools." See https://www.fdic.gov/news/news/financial/2019/fil19047.html
Final Rule to Amend 12 C.F.R. Part 370, "Recordkeeping for Timely Deposit Insurance Determination" (FIL-46-2019, August 26, 2019)	The Board of Directors of the FDIC approved a final rule to amend 12 C.F.R. Part 370, "Recordkeeping for Timely Deposit Insurance Determination." The rule makes certain substantive revisions to simplify the process for making insurance determinations in the event a bank is placed into receivership by (1) better aligning the benefits and burdens of the rule, (2) clarifying the rule's requirements, and (3) making technical corrections. The rule takes effect October 1, 2019. See https://www.fdic.gov/news/news/financial/2019/fil19046.html
FDIC Issues Proposed Rule on Certain Assessment Credits (PR-74-2019, August 20, 2019)	The FDIC approved a notice of proposed rulemaking to amend the deposit insurance assessment regulations that govern the use of small bank assessment credits and one-time assessment credits. The proposal would require the FDIC to automatically apply small bank credits to quarterly assessments when the reserve ratio is at least 1.35%, rather than 1.38%, as required under current regulation. After applying credits for eight quarters, the FDIC would remit the nominal value of any remaining small bank credits. The proposed changes intend to make the application of small bank credits to quarterly assessments more predictable for insured depository institutions with these credits. Comments on the proposed rule will be accepted until September 30, 2019. See https://www.fdic.gov/news/news/press/2019/pr19074.html
FDIC Approves Interagency Final Rule to Simplify and Tailor the "Volcker Rule" (PR-73-2019, August 20, 2019)	The Board of Directors of the FDIC approved an interagency final rule to simplify and tailor requirements relating to Section 619 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, commonly known as the "Volcker Rule." The Volcker Rule generally prohibits banking entities from engaging in proprietary trading and from owning or controlling hedge funds or private equity funds. Among other amendments, the final rule tailors compliance requirements based on the size of a firm's trading assets and liabilities and simplifies the trading activity information banking entities are required to provide. The rule's effective date is January 1, 2020, with a compliance date of January 1, 2021. See https://www.fdic.gov/news/news/press/2019/pr19073.html

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Subject	Summary
FDIC Annual Publication Examines Potential Credit and Market Risks (PR-70-2019, July 30, 2019)	The FDIC published its *2019 Risk Review*, an annual publication highlighting emerging risks and exposures in the banking system. This issue provides a summary of conditions in the U.S. economy, financial markets, and banking industry. It also presents key risks to banks in the categories of credit risk (agriculture, commercial real estate, energy, housing, leveraged lending and corporate debt, and nonbank lending) and market risk (interest rate risk, deposit competition, and liquidity). The *2019 Risk Review* is available at https://www.fdic.gov/bank/analytical/risk-review/index.html. See https://www.fdic.gov/news/news/press/2019/pr19070.html
Agencies Complete Resolution Plan Evaluations and Extend Deadline for Certain Firms (PR-69-2019, July 26, 2019)	The FRB and FDIC announced several resolution plan actions, including completing their evaluations of the 2018 resolution plans for 82 foreign and 15 domestic banks and extending the deadline for the next resolution plans from those firms. The extensions will give the banks additional time to prepare their plans in light of resolution plan rule changes proposed by the agencies in April 2019. See https://www.fdic.gov/news/news/press/2019/pr19069.html
FDIC Announces Meeting of Advisory Committee on Community Banking (PR-67-2019, July 24, 2019)	The FDIC held a meeting of the Advisory Committee on Community Banking on July 30, 2019. FDIC senior staff provided updates on various supervisory policy issues and the FDIC Subcommittee on Supervision Modernization, as well as briefed Committee members on minority and community development financial institutions, *Money Smart* financial education materials, and de novo institutions. In addition, the FDIC Ombudsman provided a briefing to the Committee, and a panel discussed FDIC and U.S. Small Business Administration collaboration efforts. See https://www.fdic.gov/news/news/press/2019/pr19067.html
Agencies Release Public Sections of Resolution Plans for Eight Large Banks (PR-66-2019, July 23, 2019)	The FRB and FDIC released the public sections of eight large domestic firms' resolution plans. Resolution plans are divided into public and confidential sections. To foster transparency, the agencies have required each firm's public section to summarize certain elements of the resolution plan. The public sections of the plans are available on the FDIC's and FRB's websites. See https://www.fdic.gov/news/news/press/2019/pr19066.html
Interagency Statement on Risk-Focused Bank Secrecy/Anti-Money Laundering Supervision (FIL-43-2019, PR-65-2019, July 22, 2019)	The federal bank regulatory agencies, the NCUA, and the Financial Crimes Enforcement Network issued a joint statement to clarify their risk-focused approach to examinations of Bank Secrecy Act/anti-money laundering (BSA/AML) compliance programs. The statement is intended to improve transparency into the risk-focused approach used for planning and performing BSA/AML examinations, and does not establish new requirements. See https://www.fdic.gov/news/news/financial/2019/fil19043.html
Interagency Webinar: Revisions to the Framework for Margin Requirements for Non-Centrally Cleared Derivatives (FIL-42-2019, July 22, 2019)	The federal bank regulatory agencies jointly hosted a webinar on July 24, 2019, on revisions to the framework for margin requirements for non-centrally cleared derivatives that have been adopted by the Basel Committee on Bank Supervision and the International Organization of Securities Commissions. The webinar described legal documentation standards, custodial readiness, and testing for systems related to the $50 million initial margin threshold. See https://www.fdic.gov/news/news/financial/2019/fil19042.html

Subject	Summary
Federal Bank Regulatory Agencies Announce Coordination of Reviews for Certain Foreign Funds Under Volcker Rule (PR-64-2019, July 17, 2019)	The federal bank regulatory agencies announced that they will not take action related to restrictions under the Volcker Rule for certain foreign funds for an additional two years. The agencies have consulted with the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission regarding this matter. The Volcker Rule generally restricts banking entities from engaging in proprietary trading and from owning, sponsoring, or having certain relationships with hedge funds or private equity funds, known as "covered funds." Certain foreign funds are excluded from the definition of covered funds under the agencies' implementing regulations, but these foreign funds could become subject to the Volcker Rule because of governance arrangements or investments by foreign banking entities. See https://www.fdic.gov/news/news/press/2019/pr19064.html
FDIC Board Finalizes Changes to Recordkeeping Requirements for Deposit Insurance Determinations (PR-63-2019, July 16, 2019)	The FDIC Board approved amendments to two rules to simplify the process for making insurance determinations in the event a bank is placed into receivership. Part 370 of the FDIC's Rules and Regulations *Recordkeeping for Timely Deposit Insurance Determination* has been amended to allow for an optional one-year extension of the rule's original compliance deadline of April 1, 2020. Other more technical changes are intended to address issues that became apparent to FDIC staff as they worked with institutions since Part 370 was first adopted in November 2016. Amendments to Part 330 of the FDIC's Rules and Regulations will expand the types of evidence beyond signature cards to be considered when determining whether joint accounts qualify for increased deposit insurance coverage. See https://www.fdic.gov/news/news/press/2019/pr19063.html
Regulatory Capital Rules: Treatment of Land Development Loans for the Definition of High Volatility Commercial Real Estate Exposure (FIL-39-2019, PR-62-2019, July 12, 2019)	As required by Section 214 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (EGRRCPA), the federal bank regulatory agencies propose to revise the definition of high volatility commercial real estate (HVCRE). The proposal expands on the notice of proposed rulemaking issued on September 28, 2018, to clarify that loans that solely finance the development of land for one- to four-family residential properties would meet the definition of HVCRE under the agencies' capital rules, unless the loan qualifies for another exemption. See https://www.fdic.gov/news/news/financial/2019/fil19039.html
FDIC Releases Initial Sections of its Applications Procedures Manual (FIL-38-2019, July 10, 2019)	The FDIC posted sections of its *Applications Procedures Manual* to its website to provide greater transparency regarding the FDIC's internal processes. The manual provides directions for professional staff assigned to review and process applications, notices, and other requests to the FDIC. This is the first in a series of releases that will comprise the complete manual. Each subsequent release will include multiple sections governing specific filing types. Additional resources related to the filing process are available on the FDIC's website. FDIC insured institutions and other interested parties may subscribe to receive notice of future releases and updates to the manual at https://service.govdelivery.com/accounts/USFDIC/subscriber/new. See https://www.fdic.gov/news/news/financial/2019/fil19038.html

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Subject	Summary
Agencies Adopt Final Rule to Exclude Community Banks from the Volcker Rule (PR-61-2019, July 9, 2019)	The FDIC, FRB, OCC, U.S. Securities and Exchange Commission, and Commodity Futures Trading Commission have adopted a final rule to exclude community banks from the Volcker Rule consistent with EGRRCPA. The Volcker Rule generally restricts banking entities from engaging in proprietary trading and from owning, sponsoring, or having certain relationships with hedge funds or private equity funds. Under the final rule, community banks with $10 billion or less in total consolidated assets, and total trading assets and liabilities of 5 percent or less of total consolidated assets, will be excluded from the Volcker Rule. The final rule also permits a hedge fund or private equity fund, under certain circumstances, to share the same name or a variation of the same name with an investment adviser as long as the adviser is not an insured depository institution, a company that controls an insured depository institution, or a bank holding company. The final rule is effective on July 22, 2019. See https://www.fdic.gov/news/news/press/2019/pr19061.html
Simplification to the Capital Rule Pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act of 1996* (FIL-37-2019, PR-60-2019, July 9, 2019)	The federal bank regulatory agencies have adopted a final rule that simplifies several requirements of the agencies' regulatory capital rules for non-advanced approaches banking organizations, which generally are firms with less than $250 billion in total consolidated assets and less than $10 billion in total foreign exposure. The final rule will simplify the capital treatment for mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest. The final rule will also allow bank holding companies and savings and loan holding companies to redeem common stock without prior approval, unless required. The agencies indicated their intent to address these matters in their joint report to Congress in 2017 pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act*. The final rule will be effective as of April 1, 2020, for the amendments to simplify capital rules, and as of October 1, 2019, for the revisions to the pre-approval requirements for the redemption of common stock and other technical amendments. See https://www.fdic.gov/news/news/financial/2019/fil19037.html
Reduced Reporting in Call Reports for Covered Depository Institutions (FIL-36-2019, FIL-35-2019, July 5, 2019; PR-51-2019, June 17, 2019)	The federal bank regulatory agencies have adopted a final rule to implement Section 205 of the EGRRCPA to allow for reduced reporting on reports of condition by insured depository institutions with less than $5 billion in total assets that meet other criteria. The final rule expands eligibility to file FFIEC 051 and reduces the reporting frequency for a number of existing items from quarterly to semiannually. The applicable revisions to the FFIEC 051 Call Report will take effect on September 30, 2019, subject to approval by the U.S. Office of Management and Budget. See https://www.fdic.gov/news/inactive-financial-institution-letters/2019/fil19036.html
FDIC Hosts Roundtable on Collaborations with Minority Depository Institutions (PR-57-2019, June 27, 2019)	The FDIC hosted a roundtable on June 27, 2019, with large FDIC-supervised financial institutions and minority depository institutions (MDIs) to foster collaboration in support of the continued vibrancy of MDIs and their communities. The FDIC intends to pursue initiatives to further promote and support collaborative relationships between non-MDIs and MDIs, such as additional roundtables, clarification on how these relationships receive consideration under the *Community Reinvestment Act*, raising awareness among insured institutions, and targeted training for agency examination staff. See https://www.fdic.gov/news/news/press/2019/pr19057.html

Subject	Summary
Webinar: Building Collaboration Between Financial Institutions and Law Enforcement to Prevent and Address Elder Abuse (FIL-34-2019, PR-55-2019, June 26, 2019)	The FDIC and the CFPB co-hosted a webinar on July 25, 2019, to outline strategies to prevent and address elder financial abuse. The webinar focused on the benefits of appropriate collaboration between financial institutions and law enforcement and provided financial institutions with resources and strategies to develop strategic relationships. The webinar discussed the unique challenges in detecting and preventing elder financial abuse and how Suspicious Activity Report filings can be used to combat it. The webinar also covered Money Smart for Older Adults, a free resource developed by the FDIC and CFPB. See https://www.fdic.gov/news/news/financial/2019/fil19034.html
FDIC Hosts Interagency Conference Focusing on Minority Depository Institutions (PR-54-2019, June 25, 2019)	The FDIC hosted the 2019 Interagency Minority Depository Institution and CDFI Bank Conference from June 25–26, 2019, in partnership with the FRB and OCC. The biennial conference for FDIC-insured MDIs and Community Development Financial Institution banks discussed innovation, supervision, cybersecurity, and federal programs supporting MDIs. The conference also announced the release of a new research study entitled, *Minority Depository Institutions: Structure, Performance, and Social Impact*. More information on MDIs can be found at https://www.fdic.gov/mdi/. See https://www.fdic.gov/news/news/press/2019/pr19054.html
Agencies Issue List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies (PR-52-2019, June 17, 2019)	The federal bank regulatory agencies announced the availability of the 2019 list of distressed and underserved nonmetropolitan middle-income geographies, where revitalization or stabilization activities are eligible to receive *Community Reinvestment Act* consideration under the community development definition. See https://www.fdic.gov/news/news/press/2019/pr19052.html
FDIC Cautions Customers That FDIConnect.com is Not Affiliated With a Government Agency and Should Not Be Confused With FDICconnect.gov (PR-50-2019, June 13, 2019)	The FDIC cautions bank customers on the potential for confusion between FDIConnect.com and the FDIC-run FDICconnect.gov. FDIConnect.com advertises itself as a consumer-focused provider of FDIC pass-through insurance for bank deposits, but it is not affiliated with the FDIC. FDICconnect.gov is a secure electronic portal for the FDIC to connect with financial institutions – not with individual bank customers. The FDIC recommends that bank customers confirm a financial institution is FDIC-insured before doing business with that institution. Customers may use the FDIC's BankFind database or call the FDIC toll-free at 1-877-275-3342 to check whether a specific bank or savings association is FDIC-insured. See https://www.fdic.gov/news/news/press/2019/pr19050.html
FDIC Consumer Compliance Supervisory Highlights (FIL-31-2019, PR-49-2019, June 13, 2019)	The FDIC issued the new *Consumer Compliance Supervisory Highlights* publication that offers a high-level overview of consumer compliance issues identified through the FDIC's supervision of state non-member banks and thrifts in 2018. The issue includes resources and information to help financial institutions effectively manage consumer compliance responsibilities as well as most frequently cited violations and enforcement actions. The publication is available on the FDIC's website at https://www.fdic.gov/regulations/examinations/consumercomplsupervisoryhighlights.pdf. See https://www.fdic.gov/news/news/financial/2019/fil19031.html

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Subject	Summary
Request for Information on FDIC Technical Assistance Offerings and Delivery (FIL-29-2019, June 3, 2019)	The FDIC is seeking feedback on its methods and efforts to provide technical assistance. The FDIC uses various forms of technical assistance including videos, the Directors' Resource Center, director/banker colleges, teleconferences and webinars, Community Bank Resource Kits, regional compliance newsletters, and individual assistance to institutions. The FDIC requests information on additional steps that could support effective management and operation of FDIC-supervised institutions through technical assistance and collaboration on safety and soundness and consumer compliance matters. Comments will be accepted until August 6, 2019. See https://www.fdic.gov/news/news/financial/2019/fil19029.html
Agencies Issue Final Rule Regarding the Treatment of Certain Municipal Obligations as High-Quality Liquid Assets (PR-44-2019, May 30, 2019)	As required by the EGRRCPA, the federal bank regulatory agencies issued a final rule that will adopt without change the agencies' interim final rule issued in August 2018. The final rule amends their liquidity coverage ratio rules to treat eligible municipal obligations as high-quality liquid assets if those obligations are liquid and readily marketable and investment grade. The final rule is effective on July 5, 2019. See https://www.fdic.gov/news/news/press/2019/pr19044.html
Agencies Issue Host State Loan-to-Deposit Ratios (PR-41-2019, May 28, 2019)	The federal bank regulatory agencies issued the host state loan-to-deposit ratios they will use to determine compliance with Section 109 of the *Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994*. In general, Section 109 prohibits a bank, or a branch controlled by an out-of-state bank holding company, from establishing, acquiring, or operating a branch or branches outside its home state primarily for the purpose of deposit production. See https://www.fdic.gov/news/news/press/2019/pr19041.html
Summary of Deposits Survey: Filing for June 30, 2019 (FIL-28-2019, May 28, 2019)	The Summary of Deposits is the annual survey of branch office deposits as of June 30, 2019, for all FDIC-insured institutions, including insured U.S. branches of foreign banks. All institutions with a branch office are required to submit the survey; institutions with only a main office are exempt. No extensions will be granted, and all survey filings are required by July 31, 2019. See https://www.fdic.gov/news/news/financial/2019/fil19028.html
Banker Teleconference Series: Private Flood Insurance Rule (FIL-27-2019, May 20, 2019)	The FDIC conducted an interagency webinar on June 18, 2019, on the interagency rule on private flood insurance that goes into effect on July 1, 2019. Staff from the federal bank regulatory agencies, the NCUA, and the Farm Credit Administration discussed various aspects of private flood insurance and preparations to comply with the rule. See https://www.fdic.gov/news/news/financial/2019/fil19027.html
Financial Institution Diversity Video (FIL-26-2019, May 20, 2019)	The FDIC prepared a video describing the agency's Financial Institution Diversity Program; the video is available on the FDIC's YouTube Channel. Financial institutions regulated by the FDIC are encouraged to conduct annual self-assessments of their diversity policies and practices as outlined in the *Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies*. See https://www.fdic.gov/news/news/financial/2019/fil19026.html

Subject	Summary
Proposed Revisions to the Consolidated Reports of Income and Condition (Call Report) for the Proposed Community Bank Leverage Ratio (FIL-24-2019, May 6, 2019; FIL-25-2019, May 7, 2019)	On April 19, 2019, the federal bank regulatory agencies published in the *Federal Register* proposed changes to all three versions of the Call Report to introduce a new Community Bank Leverage Ratio (CBLR) consistent with Section 201 of the EGRRCPA. This proposal would align the Call Report with the agencies' proposed rule that would provide a simplified alternative measure of capital adequacy for certain community banks with less than $10 billion in total consolidated assets. The proposed revisions would also implement reporting changes consistent with the FDIC's proposed rule to amend deposit insurance assessment regulations to apply the CBLR framework. See https://www.fdic.gov/news/inactive-financial-institution-letters/2019/fil19025.html
Deposit Insurance Coverage Seminars: Free Nationwide Seminars for Bank Officers and Employees (FIL-23-2019, April 23, 2019)	The FDIC conducted four identical live seminars on FDIC insurance coverage for bank officers and employees between May 15, 2019 and December 9, 2019. The seminars included a comprehensive overview of FDIC deposit insurance rules, as well as information on signature card requirements for joint accounts, prepaid cards, bank trade names, Health Savings Accounts, 529 plan accounts, and 529 *Achieving a Better Life Experience* plan accounts. An overview of some of the FDIC's most popular deposit insurance resources was presented. See https://www.fdic.gov/news/news/financial/2019/fil19023.html
Agencies Seek Comment on Revisions to the Supplementary Leverage Ratio as Required by Economic Growth, Regulatory Relief, and Consumer Protection Act (PR-36-2019, April 18, 2019)	The federal bank regulatory agencies request comment on a proposal to modify a capital requirement for United States banking organizations, as required by the EGRRCPA. Under the proposal, certain large or internationally active banking organizations predominately engaged in custody, safekeeping, and asset servicing activities, may exclude qualifying deposits at central banks from their supplementary leverage ratio. Based on data available at the time of the proposal, the modification would only apply to The Bank of New York Mellon, Northern Trust Corporation, and State Street Corporation, together with their depository institution subsidiaries. See https://www.fdic.gov/news/news/press/2019/pr19036.html
Agencies Invite Comment on Modifications to Resolution Plan Requirements; Proposal Keeps Existing Requirements for Largest Firms and Reduces Requirements for Firms with Less Risk (PR-35-2019, April 16, 2019)	The FDIC and FRB invite public comments on a proposal modifying their resolution plan requirements for large banking firms. The proposal would affect domestic and foreign banks with more than $100 billion in total consolidated assets and establish a graduated set of resolution planning requirements that depend on the level of risk a firm poses to the financial system. See https://www.fdic.gov/news/news/press/2019/pr19035.html
FDIC Seeks Comment on New Approaches to Insured Depository Institution Resolution Planning (PR-34-2019, April 16, 2019)	The FDIC Board approved an Advanced Notice of Proposed Rulemaking (ANPR) seeking comment on ways to tailor and improve the agency's rule requiring certain insured depository institutions (IDI) to submit resolution plans. The ANPR proposes to revise the $50 billion threshold in the existing rule to set tiered requirements based on size, complexity, or other characteristics of the IDI. The FDIC is also seeking comment on ways to streamline submission of plans for larger, more complex firms, and whether to replace submissions with periodic engagement and testing for smaller, less complex firms. The next round of submissions under the rule will be delayed until the rulemaking process has been completed. See https://www.fdic.gov/news/news/press/2019/pr19034.html

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Subject	Summary
U.S., European Banking Union, and UK Officials Meet for Planned Coordination Exercise on Cross-Border Resolution Planning (PR-33-2019, April 9, 2019)	Senior officials representing resolution, regulatory and supervisory authorities in the United States, the United Kingdom, and the European Banking Union held a meeting on April 13, 2019, as part of a series of planned exercises to enhance understanding of one another's resolution regimes for global systemically important banks and strengthen coordination on cross-border resolution. The exercise was planned to coincide with the annual international meetings in Washington, D.C. sponsored by the World Bank and International Monetary Fund. See https://www.fdic.gov/news/news/press/2019/pr19033.html
FDIC Podcast Chronicles Causes, Responses to Financial Crisis (PR-31-2019, April 4, 2019)	The FDIC released a series of podcasts featuring discussions about *Crisis and Response: An FDIC History, 2008 – 2013*, the agency's study of the banking and financial crisis. The podcast series is organized into seven episodes: an introductory episode that highlights the study's review and one episode for each of the study's six chapters. The podcasts and *The Crisis and Response* study are available on the FDIC's website at https://www.fdic.gov/bank/historical/crisis/index.html. Copies of the study can be ordered from the FDIC Online Catalog. See https://www.fdic.gov/news/news/press/2019/pr19031.html
New Accounting Standard on Credit Losses: Frequently Asked Questions (FIL-20-2019, April 3, 2019)	The federal financial institution regulatory agencies are issuing *Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses* to assist institutions and examiners. The new standards take effect in 2020, 2021, or 2022, depending on the institution's characteristics. The frequently asked questions (FAQs) focus on the application of the current expected credit losses methodology and related supervisory expectations and regulatory reporting guidance. This will replace the FAQs attached to FIL-41-2017. See https://www.fdic.gov/news/news/financial/2019/fil19020.html
Technology Service Provider Contracts (FIL-19-2019, April 2, 2019)	This document describes examiner observations about gaps in financial institutions' contracts with technology service providers that may require financial institutions to take additional steps to manage their business continuity and incident response. See https://www.fdic.gov/news/news/financial/2019/fil19019.html
Current Expected Credit Losses (CECL) Webinar (FIL-17-2019, April 2, 2019)	The federal financial institution regulatory agencies, in conjunction with the Financial Accounting Standards Board, the U.S. Securities and Exchange Commission, and the Conference of State Bank Supervisors jointly hosted an "Ask the Regulators: CECL Webinar: Weighted-Average Remaining Maturity (WARM) Method." Webinar materials are available at https://www.webcaster4.com/Webcast/page/583/29509. See https://www.fdic.gov/news/news/financial/2019/fil19017.html
Home Mortgage Disclosure Act (FIL-16-2019, April 1, 2019)	The FFIEC has issued *A Guide to HMDA Reporting: Getting It Right!* This guide covers data collected in 2019 and reported in 2020, along with updated interagency HMDA examination procedures. See https://www.fdic.gov/news/news/financial/2019/fil19016.html

Subject	Summary
Regulatory Capital Rule: Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Globally Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Globally Systemically Important Foreign Banking Organizations (FIL-18-2019, PR-30-2019, April 2, 2019)	The federal bank regulatory agencies have jointly issued a Notice of Proposed Rulemaking to amend the capital rule to require advanced approaches banking organizations to deduct from regulatory capital certain investments in unsecured debt instruments issued by Global Systemically Important Banks and certain of their subsidiaries for the purpose of meeting minimum Long Term Debt or Total Loss Absorbing Capacity (TLAC) requirements. The proposal is intended to limit both interconnectedness within the financial system and systemic risk. The proposal would require additional capital to be held against substantial holdings of TLAC debt. See https://www.fdic.gov/news/news/financial/2019/fil19018.html
FDIC Hosts Webinar for Financial Capability Month (PR-29-2019, April 1, 2019)	The FDIC hosted a webinar on April 17, 2019, to help organizations learn how to use Money Smart tools. The webinar also explained the benefits of joining the FDIC's Money Smart Alliance, a free resource to help organizations learn new approaches and strategies on how to use Money Smart tools. See https://www.fdic.gov/news/news/press/2019/pr19029.html
FDIC Hosts *Fintech and the Future of Banking* Conference in Arlington, Virginia (PR-28-2019, April 1, 2019)	The FDIC and Duke University's Fuqua School of Business and Innovation and Entrepreneurship Initiative hosted the *Fintech and the Future of Banking* conference on April 24, 2019. The conference leveraged research and experience by bringing together leaders in academia, policy, and industry to discuss the impact Fintech and innovation have on how banks conduct business and consumers interact with financial institutions. Conference materials are available at https://www.fdic.gov/bank/analytical/fintech/index.html. See https://www.fdic.gov/news/news/press/2019/pr19028.html
FDIC Board Proposes Changes to Recordkeeping Requirements for Deposit Insurance Determinations (PR-26-2019, March 29, 2019)	The FDIC Board approved proposals to amend two rules to simplify the process for making insurance determinations in the event a bank is placed into receivership. The first proposal amends Part 370 of the FDIC's regulations entitled, *Recordkeeping for Timely Deposit Insurance Determinations,* to address issues raised since the rule was approved in November 2016, and provide an optional one-year extension of the original compliance date of April 1, 2020. The second proposal amends Part 330 of the FDIC's regulations to provide an alternate method to satisfy the signature card requirements for deposits held in joint accounts. See https://www.fdic.gov/news/news/press/2019/pr19026.html
FDIC Announces Meeting of Advisory Committee on Community Banking (PR-21-2019, March 21, 2019)	The FDIC held a meeting of the Advisory Committee on Community Banking on March, 28, 2019, to discuss de novo institution efforts, community bank technical assistance efforts, the 2017 *FDIC National Survey of Unbanked and Underbanked Households*, and various supervisory policy issues. The meeting was open to the public and was webcast live. The agenda and a link to the webcast are available at https://www.fdic.gov/communitybanking/. See https://www.fdic.gov/news/news/press/2019/pr19021.html

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Subject	Summary
Removal of the FDIC's Part 350 Annual Disclosure Statement Requirement (FIL-14-2019, March 20, 2019)	A final rule rescinding and removing Part 350 of the FDIC's regulations, entitled *Disclosure of Financial and Other Information by FDIC Insured State Nonmember Banks*, has been approved. Although this will not take effect until April 17, 2019, state nonmember banks and insured state-licensed branches of foreign banks need not prepare and make public disclosure statements containing financial data for 2018 and 2017. See https://www.fdic.gov/news/news/financial/2019/fil19014.html
Supervisory Insights Journal: Winter 2018 Issue Now Available (FIL-13-2019, PR-20-2019, March 20, 2019)	The Winter 2018 issue of *Supervisory Insights* features an article that examines alternatives to the London Interbank Offered Rate (LIBOR), as well as planning considerations for a potential change in the use of LIBOR as a reference rate. The issue is available at https://www.fdic.gov/regulations/examinations/supervisory/insights/. See https://www.fdic.gov/news/news/financial/2019/fil19013.html
Agencies Adopt Interim Final Rule to Facilitate Transfers of Legacy Swaps (PR-18-2019, March 15, 2019)	The Farm Credit Administration, the Federal Housing Finance Agency, and the federal bank regulatory agencies have enacted interim final rules to ensure that qualifying swaps may be transferred from a United Kingdom entity to an affiliate in the European Union or the United States without triggering new margin requirements. The final rule is effective on March 19, 2019. See https://www.fdic.gov/news/news/press/2019/pr19018.html
Agencies Announce Two Public Meetings on Merger of BB&T and SunTrust (PR-17-2019, March 14, 2019)	The FDIC and the FRB jointly held two public meetings on April 25, 2019, and May 3, 2019, on the proposed merger of BB&T Corporation, Winston-Salem, North Carolina, with SunTrust Banks, Inc., Atlanta, Georgia. The meetings collected information relating to the convenience and needs of the community to be served, the institutions' performance under the *Community Reinvestment Act*, and other factors relevant to the merger applications of SunTrust Bank with and into Branch Banking and Trust Company. See https://www.fdic.gov/news/news/press/2019/pr19017.html
Revisions to the Consolidated Reports of Condition and Income and Other Regulatory Reports (FIL-10-2019, March 6, 2019; FIL-12-2019, March 8, 2019)	The federal bank regulatory agencies have finalized revisions to the Consolidated Reports of Condition and Income (Call Report) and certain other FFIEC reports to implement the agencies' recent revisions to the regulatory capital rules for the current expected credit losses methodology under the Financial Accounting Standards Board's Accounting Standards Update 2016-13. Other revisions to these reports result from the EGRRCPA and relate to the reporting of high volatility commercial real estate exposures and reciprocal deposits. See https://www.fdic.gov/news/inactive-financial-institution-letters/2019/fil19012.html
FDIC's Subcommittee on Supervision Modernization for the Advisory Committee on Community Banking Holds its Inaugural Meeting (PR-16-2019, March 6, 2019)	The inaugural meeting of the FDIC's Subcommittee on Supervision Modernization took place on March 5 – 6, 2019. The subcommittee was established to support the FDIC's Advisory Committee on Community Banking by considering how the FDIC can leverage technology and refine processes to make the examination program more efficient, while managing and training a geographically dispersed workforce. The meeting consisted of an overview of the FDIC and its structure, a discussion of the current bank examination program, and a review of existing technology and data sources used to conduct examinations. See https://www.fdic.gov/news/news/press/2019/pr19016.html

Subject	Summary
FDIC Unveils New Resources During National Consumer Protection Week 2019 (PR-13-2019, March 4, 2019)	The FDIC unveiled new resources in observance of *National Consumer Protection Week* (March 3 – 9, 2019) to help consumers understand their rights and make well-informed decisions about money. Resources include an online *Information and Support Center* that allows consumers to check the status of inquiries or complaints they have made about a financial institution, and an *FDIC Knowledge Center* that provides answers to questions about banking and lending. The *Information and Support Center* can be accessed at https://ask.fdic.gov/fdicinformationandsupportcenter/s/ and the *FDIC Knowledge Center* can be accessed at https://ask.fdic.gov/fdicinformationandsupportcenter/s/public-information. See https://www.fdic.gov/news/news/press/2019/pr19013.html
Prepaid Accounts Rule: Interagency Consumer Compliance Examination Procedures (FIL-9-2019, February 22, 2019)	The FDIC adopted revised interagency examination procedures to incorporate the CFPB's amendments to *Regulation E* and *Regulation Z*. The examination procedures may be helpful to financial institutions seeking to better understand how FDIC examiners will evaluate an institution's compliance with these regulations. FDIC examiners will use the updated procedures effective April 1, 2019. See https://www.fdic.gov/news/news/financial/2019/fil19009.html
FDIC Encourages Consumers to Set Financial Goals and Learn More About Options for Saving (PR-11-2019, February 22, 2019)	The FDIC encourages consumers to use *America Saves Week* (February 25 – March 2, 2019) as an opportunity to evaluate their short- and long-term financial goals and learn more about how banks can help achieve these goals. The FDIC offers free financial education resources to consumers, financial institutions, and other organizations interested in supporting savings. Information about *America Saves Week* and savings-related resources is available at https://www.fdic.gov/deposit/deposits/savings.html. See https://www.fdic.gov/news/news/press/2019/pr19011.html

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