



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

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**TO THE OFFICER IN CHARGE OF EXAMINATIONS
AT EACH FEDERAL RESERVE BANK**

This letter pertains to the establishment of a program for the uniform reviews and classification of Shared National Credits (SNCs) at State-member banks. This program is similar to one established by the Comptroller of the Currency in 1975. It is anticipated that the two programs will be operated jointly beginning in 1977. The program is to commence May 2, 1977, and is expected to be completed during July 1977, at the latest. The purposes of the program are to obtain uniform review and classification of large national (domestic) credits and provide for more efficient use of examiner resources in examination of State-member banks.

Shared National Credits

A Shared National Credit is defined as any loan in an original amount of \$20 million or more which is (1) shared at its inception by two or more banks under a formal lending agreement; or, (2) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk.

Identification of Shared National Credits and Notification Procedures

You have been requested previously to identify SNCs where a State-member bank is the lead or agent bank. Also, following the identification of such SNC's, you forwarded a report to a central clearing unit (subsequently explained) at the New York Reserve Bank. This report included (1) name of borrower; (2) description of credit; (3) name of agent bank and all other banks participating in the credit; and (4) amounts outstanding at each bank.

Analysis and Classification of Shared National Credits

All identified SNCs within a Federal Reserve District will be analyzed and classified by a team of qualified examiners selected by the appropriate Reserve Bank. The composition of the team may include State examiners with such participation encouraged. The Reserve Bank will designate one Federal Reserve examiner as the team leader with the designee responsible for discussion of the credit and content of the loan writeup. Each team member will have one vote on loan under review and a majority vote will determine the uniform classification. Other examiners may assist the review team with the reading of credit files and other detailed credit analysis.

In determining specially mentioned and loan classifications, the examiner must adequately support such criticisms based on factual data presented in the writeup. As the degree of classification increases, so does the need for supportable facts to document classifications. The use of split classifications assists in supporting overall classification of a large credit and should be employed in appropriate circumstances without reservation.

Shared National Credit Central Clearing Unit

A central clearing unit will be established at the New York Reserve Bank for collection and dissemination of information on SNCs. On completion of the analysis of all SNCs at a bank, the team leader will forward a report to the clearing unit which will include, in addition to the information indicated in the identification paragraph above, (1) composition of the review team; (2) voting record on each loan; (3) disposition; and, (4) loan writeup if the loan is classified or specially mentioned. The clearing unit will not change loan classifications; however, changes in format may be made as considered necessary. Address of the central clearing unit is SNC Central Clearing Unit, Bank Examination Department, Federal Reserve Bank of New York, Federal Reserve Station, New York, New York 10045.

The clearing unit will disseminate reports and loan writeups to Reserve Banks, as appropriate, on the SNCs in their districts which were reviewed by examiners in their own/other districts. These reports will include the basic information indicated above. The Reserve Banks will be responsible for forwarding loan writeups on criticized loans to individual banks in their district which share in the credit. The classification or special mention of the credit will be effective for all subsequent examinations until the SNC review process is subsequently repeated or the Reserve Bank is notified otherwise. In instances where loss classifications are indicated, the banks should be instructed that such losses must be written off by the calendar year-end at the latest.

To assure an early completion of the 1977 program, reports should be forwarded to the central clearing unit as soon as practicable and in any event no later than June 15, 1977, to enable the clearing unit to complete dissemination during July 1977. Some Reserve Banks have already completed examinations of banks which act as agents for SNCs. In such situations, the SNCs will be reviewed again by an examining team and an appropriate report made to the clearing unit.

National Banks Acting as Agent Bank for Shared National Credits

The National bank examiners will be conducting their reviews of SNCs during this same period and it is anticipated that information on SNCs will be available for distribution to the Reserve Banks during July 1977. The Board will receive and disseminate information on SNCs analyzed at National Banks.

Agency Agreement

The Federal Reserve System and the Comptroller of the Currency have adopted procedures to implement a joint SNC program. See attachment for said procedures.

Examination Reports

Since all banks with SNCs will be in receipt of loan writeups on SNCs, if criticized, it will not be necessary to include a writeup on shared credits in examination reports. However, an alphabetical list of SNCs will be placed at the end of pages 5(a) or 5(b), as appropriate, the list to be confined to name of the borrower, total borrowing, amount past due if delinquent and amount criticized in the appropriate column or columns. The following commentary will precede the list of criticized SNCs:

The following national credits were reviewed and appropriately classified by a team of examiners at the lead or agent bank. Your bank's current share of each loan is shown. Comments relating to each classified loan have been previously provided to your bank.

The total of the various classifications of SNCs will be reflected separately on page 3 of the examination report rather than included in the totals for all loans.

Rereviews of Shared National Credits

Agent/lead banks should be encouraged to inform the appropriate Reserve Bank of any significant change, whether adverse or favorable, affecting a shared credit which occurs subsequent to review of the loan. Banks should be urged to furnish pertinent financial or related data on SNCs subsequent to the review.

Commencing on September 30, 1977, those agent banks having criticized SNCs may request a rereview of such credits. However, in this connection, the requesting bank must demonstrate to the Reserve Bank that a substantial change has occurred in the credit and must provide the Reserve Bank with pertinent financial or other related data on the borrower. The Reserve Bank will then determine whether or not a rereview is necessary.

The central clearing unit may also obtain information that warrants a rereview of a shared credit and may recommend a rereview by the appropriate Reserve Bank. Whenever a rereview is considered appropriate, a uniform review team, preferably the original review team, will visit the bank and reappraise the shared credit.

Confidentiality of Information

The Board's counsel has determined that dissemination of the information relative to uniform classification of SNCs does not appear to be violative of any Federal statutes. Furthermore, such classifications do not appear to be subject to the public disclosure requirements of the Freedom of Information Act.

It is emphasized that all information obtained in the SNC program is considered part of the examination process. Moreover, reports on SNCs are highly sensitive and it is emphasized that great care should be accorded by all examining and bank personnel participating in the program.

Notification of State-Member Banks

Attached is a suggested draft letter which has been sent to the Presidents of all Federal Reserve Banks for distribution to State-member banks.

FDIC Participation in SNC Program

The FDIC is cooperating with other Federal banking agencies in their programs. Regarding the Comptroller's program, the review team will consist of four members including one FDIC examiner. In case of ties on credit classifications, the team leader's vote will decide the ultimate classification.

Arrangements are being made for FDIC examiners to become members of Federal Reserve examining teams. In most cases, this will result in the addition of an FDIC examiner to the Reserve Bank team, thereby creating a team of four examiners. As with the Comptroller's program, the team leader will decide the ultimate classification in case of ties. While final arrangements have not been completed, it is anticipated that Reserve Bank examiner teams in the Second District only will consist of three members including two Reserve Bank examiners and one FDIC examiner. Reserve Banks will be notified regarding those FDIC examiners selected for the SNC program.

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Attachments