Shared National Credit (SNC) Seminar

Presented by: FRBNY SNC Business Office & Exam Office
March 20, 2019
Agenda

- Introduction and Logistics – Edward Sapozhnikov
- Background of the SNC Program – Paula Webster
  - Purpose of the SNC Program
  - Background
- Reporting Requirements – Conor Donohue
  - Definition of a SNC
  - Who Must Report
    - Basic Reporters
    - Expanded Reporters
  - How to Report – Mij Hoque & Jorge Mancebo
    - Consolidation Rules
    - Detailed Instructions
      - Agent Data
      - Obligor Data
      - Credit Data
      - Participant Data
      - Credit Risk Ratings
- Break – 20 Minutes
- Bank Supervision Overview of Examination Process – Jane Stone & Gayla Gutierrez
- Common Reporting Errors – Violeta Yushvah
- Best Practices – Joseph Lovell
- Questions and Answers
- Wrap-Up – Paula Webster
Background of the SNC Program
The SNC Program is an interagency review and assessment of risk in the largest and most complex credits shared by multiple regulated financial institutions

- **It is governed by:**
  - An interagency agreement among the Board of Governors of the Federal Reserve System
  - The Federal Deposit Insurance Corporation (FDIC)
  - The Office of the Comptroller of the Currency (OCC)

- **Information collected:**
  - US syndicated loans of $100MM or greater (was $20MM and raised to $100MM as of January 1, 2018)
  - Participated by 3 or more regulated lenders

- **Total Syndicated Loans:** $5.6 Trillion (as-of 2Q 2018)
  - SNC = $5 Trillion
Reporting Requirements
What is a SNC?

A SNC is any loan or loan commitment (U.S. or Non-U.S.) for which the commitment amount aggregates $100 million or more; and

- Which is shared by three or more federally supervised unaffiliated institutions under a formal lending agreement; or
- A portion of which is sold to two or more federally supervised unaffiliated institutions, with the purchasing institutions assuming their pro rata share of the credit risk.
Types of Excluded Credits

- Below are credits that are not reportable:
  - Credits that are fully guaranteed by a sovereign entity
  - Credits to sovereign borrowers
  - “Club Credits” including related borrowings from multiple lenders, but are not extended under the same lending agreement
  - Credits with different maturity dates for participating lenders
  - Credits in which the obligor is an individual
  - Credits shared solely between affiliated supervised institutions
  - Derivatives (including swaps)
## Examples

### SNC:

<table>
<thead>
<tr>
<th>Loan Origination Date</th>
<th>Committed Exposure Global</th>
<th>Share of Committed Exposure</th>
<th>Obligor</th>
<th>Participant Lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/15/2018</td>
<td>$150,000,000</td>
<td>$110,000,000</td>
<td>Car Company ABC</td>
<td>Reporting Institution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$20,000,000</td>
<td>OCC Regulated Bank B</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$15,000,000</td>
<td>FDIC Regulated Bank C</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5,000,000</td>
<td>Hedge Fund D</td>
<td></td>
</tr>
</tbody>
</table>

### Non-SNC:

<table>
<thead>
<tr>
<th>Loan Origination Date</th>
<th>Committed Exposure Global</th>
<th>Share of Committed Exposure</th>
<th>Obligor</th>
<th>Participant Lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/15/2018</td>
<td>$150,000,000</td>
<td>$125,000,000</td>
<td>Car Company ABC</td>
<td>OCC Regulated Bank B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$20,000,000</td>
<td>FDIC Regulated Bank C</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5,000,000</td>
<td>Hedge Fund D</td>
<td></td>
</tr>
</tbody>
</table>
Who Should Report

- **Basic Reporters**
  - Report only SNC’s
  - Report credits they serve as agent for
  - Do not report Basel items
  - Typically submit data manually but have option to upload XML file

- **Expanded Reporters**
  - Report all syndicated credits
  - Report credits for which they serve as agent for, as well as those they participate in
  - Report Basel items
  - Upload XML file
How to Report: Consolidation Rules
Bank Holding Companies (BHC’s)
- Follow the consolidation requirements of the FR-Y9C
- BHCs should exclude credits that are consolidated under a depository institution (these data should be filed separately by the depository institution)

Depository Institutions
- Follow the consolidation requirements for the FFIEC 031/041

**FFIEC 031/041 Subsidiary Rule**
- Consolidate its majority-owned subsidiaries
- Account for any investments in unconsolidated subsidiaries, corporate joint ventures over which the bank exercises significant influence, and associated companies according to the equity method of accounting
SNC Consolidation Rules

- **U.S. Branches and Agencies of Foreign Banks**
  - Include credits meeting the reporting criteria that are booked at a non-U.S. branch managed by the U.S. branch (e.g., loans booked in a Cayman Island Branch)
  - Include credits meeting the reporting criteria that are booked at U.S. subsidiaries of the reporting entity’s parent Foreign Bank Organization (FBO). If the parent FBO has multiple U.S. branches or agencies that are required to file, these loans may be reported with any one of the reporting entities, but should be filed consistently with the chosen reporter.
How to Report: Detailed Instructions
Agent Data

- In this submission, reporters should only include credits where they serve as an administrative Agent.
- If the reporter is both an Agent and a Participant for a particular credit, the reporter should include this credit in the Agent submission.
  - Agent Identification data fields include:
    - Internal ID
    - Original Internal ID
    - Name
    - Short Name
    - City/State/Country
    - ZIP/Postal Code
    - Industry Code (NAICS or SIC)
    - TIN
- Location
  - Agent locations should be reported as the location of the legal entity which is designated as the agent entity according to the credit agreement.
The obligor section contains requirements for data identifying the obligor of the credit.

- Data fields include:
  - Internal ID
  - Original Internal ID
  - Name
  - Short Name
  - City/State/Country
  - ZIP/Postal Code
  - Industry Code (NAICS or SIC)
  - TIN

- Location
  - The obligor reported location should be the city, state and country in which the obligor is headquartered.
This section contains reporting requirements for the contractual terms of the credit.

Data fields include:
- Internal Credit ID
- Original Internal Credit ID
- Internal Utility Field 1/2/3
- CUSIP
- Origination/Maturity Date
- Credit Type or Other Type Description
- Purpose or Other Purpose Description
- Committed Exposure Global (in whole dollars)
- Utilized Exposure Global (in whole dollars)
- Cumulative Charge-offs
- Number of Days Principal or Interest Past Due
- Non-accrual Date
- Department Handling Account
- Leveraged Lending Flag
- Troubled Debt Restructuring Flag
Origination Date

- **Restructured/refinanced credits**
  - If a credit is restructured or refinanced prior to maturity, the origination date reported is the effective date of restructure or refinancing

- **Renewed credits**
  - If a matured credit is renewed, the origination date reported is the effective date of the renewal

- **Modified/amended credit agreements**
  - If a credit agreement is only modified or amended (maturity extension), the origination date reported should be the effective date of the original loan agreement, NOT the date of the modification or amendment
Participant Lender Data

- This section details the requirements for data about each participant and each participant’s share of the credit
- If the agent has a share of the credit, it should be included as a participant. If the agent does not hold a share of the credit, a participant record is not required for the agent
  - Data fields include:
    - Internal ID
    - Original Internal ID
    - Name
    - Short Name
    - City/State/Country
    - ZIP/Postal Code
    - Industry Code (NAICS or SIC)
    - TIN
    - Share of Committed Exposure (in whole dollars)
    - Share of Utilized Exposure (in whole dollars)
Participant Data

- Participants should be reported by legal entity and not aggregated
- Location
  - Participant lender locations should be reported as the location of the legal entity on whose general ledger the participation resides

- Additional guidelines for reporting participant lenders include:

<table>
<thead>
<tr>
<th>Reporting Booking Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Branches of Foreign Banks</td>
</tr>
<tr>
<td>Actual US Booking Location</td>
</tr>
</tbody>
</table>
Credit Risk Ratings

- Report the internal risk rating and the regulatory equivalent that is assigned to a credit by the agent as of the reporting date
- The internal risk rating is then converted into at least one of the regulatory risk ratings
- The evaluation of each credit should be based upon the fundamentals of the particular credit, including, at a minimum:
  - The overall financial condition and resources of the borrower, including the current and stabilized cash flow
  - The credit history of the borrower
  - The borrower’s or principal’s character
  - The purpose of the credit relative to the source of the repayment
  - The types of secondary sources of repayment
Internal Risk Rating

- If an institution acts solely as an Agent and is not a participant in the loan, the institution should report obligor rating in the rating field
  - Rated Flag: Report “Y” if the Reporting Institution has an internal credit rating for this credit. Report “N” if the Reporting Institution does not rate this credit internally
    - If the Reporting Institution does not rate the credit internally, but applies a rating for another source such as a public rating agency, exam notice, or if the obligor rating was applied to the credit please still report “N” as the Reporting Institution does not rate this credit internally
  - Obligor Internal Risk Rating: Report the obligor rating grade from the reporting entity’s internal risk rating system

<table>
<thead>
<tr>
<th>Participate in Credit?</th>
<th>Have Obligor Rating?</th>
<th>Obligor Internal Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>The obligor rating grade from the reporting entity’s internal risk rating system.</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>Report Credit Exposure Internal Risk Rating.</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>NH or SA as applicable.</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Report Obligor Risk Rating.</td>
</tr>
</tbody>
</table>
The credit exposure internal risk rating should be converted to one of the concordance ratings based upon a percentage that applies to the internal risk rating.

**Concordance Ratings:**
- Investment Grade (IG)
- Non-Investment Grade (NIG)
- Lowest Rated Pass (LRP)
- Special Mention (SM)
- Substandard (SS)
- Doubtful (D)
- Loss (L)

<table>
<thead>
<tr>
<th>Credit Exposure Internal Risk Rating</th>
<th>Obligor Internal Risk Rating</th>
<th>Concordance Rating</th>
<th>Rated Flag</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Rating Exists</strong></td>
<td>Internal Rating Exists</td>
<td>Convert from Credit Exposure Internal Risk Rating</td>
<td><strong>Y</strong></td>
</tr>
<tr>
<td><strong>Internal Rating Exists</strong></td>
<td>No Internal Rating Exists</td>
<td>Convert from Credit Exposure Internal Risk Rating</td>
<td><strong>Y</strong></td>
</tr>
<tr>
<td><strong>No Internal Rating Exists (HFS, TA, SA, NR)</strong></td>
<td>Internal Rating Exists</td>
<td>Convert from Obligor Internal Risk Rating</td>
<td><strong>N</strong></td>
</tr>
<tr>
<td><strong>No Internal Rating Exists</strong></td>
<td>No Internal Rating Exists</td>
<td>Input 100 percent Lowest Rated Pass</td>
<td><strong>N</strong></td>
</tr>
</tbody>
</table>
Bank Supervision Overview of Examination Process
Reported Data is the starting point for each SNC Exam
- September 30 and March 31 data are used to scope and start the 1Q and 3Q exams, respectively
- December 31 and June 30 data are used to update the exam data for results and analytics (e.g., loan balances, deal participants)

There are 2 SNC Exams conducted each year
- First Quarter Exam has historically started the last Monday of January
  - The start date will be moved to the second week of February starting in 2020 and going forward
- Third Quarter Exam will continue to begin the 3rd Monday of August
- Some banks will be reviewed for both exams and others will only be included in one review
Reported Data is the primary source utilized during the exam scoping process that takes place prior to each bi-annual SNC examination
  - Data quality is imperative for accurate scoping
  - Timely reporting is vital for adherence to interagency SNC Program mandated deadlines

Approximately one month prior to the start of each exam, bank management for all agent banks included the review, are sent a First Day Letter that includes a list of obligors.

During the exam, examiners will request current information for in-scope obligors to ensure exam data reflects updated loan details:
  - Restructures
  - New Credits
  - Change in ratings

Shared National Credit Examination Process
Examiners will also request a list of credits that have been internally downgraded since the last reporting period.

During the exam, all credits that were reported in 9/30 or 3/31, including those added during the exam, will be updated to reflect 12/31 and 6/30 reported data with respect to commitment/outstanding amounts and deal participants.

Data quality issues found during processing or during an exam can result in a reporting MRA.

Results provided to regulated lenders include examination ratings for all obligors included in the scope and a full listing of each participants SNC portfolio as reported by the agent.
All regulated participants are permitted to file an appeal on any credit within their portfolio where they disagree with the final exam rating

- Appeals must be filed within 14 calendar days from the date the results are distributed electronically
- Appeals must be filed with the regulator for the Agent bank, not the regulator for the participant
- Appeals panel of one examiner from each agency (FDIC, FRS, and OCC) will review and vote on each appealed credit and the majority vote will become the official SNC rating for the credit
- A response letter will be sent to the appealing bank regardless of the outcome of the appeal
- Updated results will be sent for any credit with a change in rating

A Press Release is published after the 3Q exam each year and includes the findings from the 1Q and 3Q exam for that calendar year
Common Reporting Errors
Common Reporting Errors

- Entities Legal Names in different submission
  - Examples: Inc., Ltd., Corp., LLC, etc.

<table>
<thead>
<tr>
<th>Internal Entity ID</th>
<th>1Q YY</th>
<th>2Q YY</th>
<th>3Q YY</th>
</tr>
</thead>
<tbody>
<tr>
<td>12345</td>
<td>Mancebo LLC</td>
<td>Mancebo Inc</td>
<td>Mancebo Limited</td>
</tr>
<tr>
<td>BL678 -01</td>
<td>WBA Warehouse Ltd.</td>
<td>WBA Warehouse LP</td>
<td>WBA Warehouse Corp</td>
</tr>
</tbody>
</table>
Entities and Internal Entities IDs

- Each legal entity should have a unique Internal ID
- Internal Entity IDs should not be reused

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Entity ID</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q YY</td>
<td>12345</td>
<td>Mancebo LLC</td>
</tr>
<tr>
<td>2Q YY</td>
<td>12345</td>
<td>Mancebo LLC</td>
</tr>
<tr>
<td>3Q YY</td>
<td>12345</td>
<td>Happy Bank NY Agency</td>
</tr>
</tbody>
</table>
When you are reporting Entity names, please use the following guidance:

- **Full legal name** of the entity should be reported

### Table: Entities Legal Names and Locations

<table>
<thead>
<tr>
<th>Reported Legal Name</th>
<th>Reported Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mancebo Bank - New York Agency</td>
<td>Berlin, Germany</td>
</tr>
<tr>
<td>Lovell Bank - London Branch</td>
<td>New York, NY, USA</td>
</tr>
</tbody>
</table>

### Table: Common Reporting Errors

<table>
<thead>
<tr>
<th>Actual Legal Name</th>
<th>Reported Legal Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock Mutual Fund</td>
<td>BLCKRCK Mutual Fund</td>
</tr>
<tr>
<td>Jorge Mancebo LLC</td>
<td>Jorge Mancebo -0012356782 Acc</td>
</tr>
</tbody>
</table>
23. **Internal Credit ID**: An identifier assigned by the reporting entity to uniquely identify the credit facility in the reporter's information system.

24. **Original Internal Credit ID**: The Internal Credit ID assigned to the credit in the previous submission. If there is no change from the prior submission, or if it is the first time the entity is being reported, the Internal Credit ID should be reported as the Original Internal Credit ID.

<table>
<thead>
<tr>
<th>Loan Status</th>
<th>Internal Credit ID</th>
<th>Original Internal Credit ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Loan</td>
<td>New</td>
<td>New</td>
</tr>
<tr>
<td>Amended Loan</td>
<td>Original</td>
<td>Original</td>
</tr>
<tr>
<td>Modified Loan</td>
<td>Original</td>
<td>Original</td>
</tr>
<tr>
<td>Restructured Loan</td>
<td>New</td>
<td>Original</td>
</tr>
<tr>
<td>Refinanced Loan</td>
<td>New</td>
<td>Original</td>
</tr>
</tbody>
</table>

*page 13 & 14 in the instructions*
## Internal Risk Ratings and Regulatory Equivalent

<table>
<thead>
<tr>
<th>Obligor Internal Risk Rating</th>
<th>Credit Exposure Internal Risk Rating</th>
<th>Investment Grade Pass</th>
<th>Non-Investment Grade Pass</th>
<th>Lowest Rated Pass</th>
<th>Special Mention</th>
<th>Substandard</th>
<th>Doubtful</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>5</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
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<td>0</td>
<td>0</td>
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<tr>
<td>B</td>
<td>7</td>
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<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>B</td>
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<td>C</td>
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<td>0</td>
<td>100</td>
<td>0</td>
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<td>0</td>
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<tr>
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<td>8</td>
<td>0</td>
<td>0</td>
<td>100</td>
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</tr>
</tbody>
</table>
Common Reporting Errors

Internal Risk Ratings and Regulatory Equivalent

<table>
<thead>
<tr>
<th>Obligor Internal Risk Rating</th>
<th>Credit Exposure Internal Risk Rating</th>
<th>Investment Grade Pass</th>
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<th>Lowest Rated Pass</th>
<th>Special Mention</th>
<th>Substandard</th>
<th>Doubtful</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>5</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>A</td>
<td>5</td>
<td>100</td>
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<td>0</td>
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<tr>
<td>B</td>
<td>7</td>
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<td>100</td>
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<td>0</td>
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</tr>
<tr>
<td>B</td>
<td>7</td>
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<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>C</td>
<td>8</td>
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<td>0</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulatory Disposition</th>
<th>Obligor Internal Risk Rating</th>
<th>Credit Facility Internal Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= Investment Grade</td>
<td>1+ to 5-</td>
<td>A</td>
</tr>
<tr>
<td>2 = Non-investment Grade</td>
<td>6+ to 7-</td>
<td>B</td>
</tr>
<tr>
<td>3 = Lowest Rated Pass</td>
<td>8+ to 12 based on Facility GRR (see attached for transition points)</td>
<td>C</td>
</tr>
<tr>
<td>4 = Special Mention</td>
<td>8- to 10- based on Facility GRR (see attached for transition points)</td>
<td>D</td>
</tr>
<tr>
<td>5 = Substandard</td>
<td>10+ to 10- based on Facility GRR (see attached for transition points)</td>
<td>E</td>
</tr>
<tr>
<td>6 = Doubtful</td>
<td>11 based on Facility GRRG 95% and below (see attached for transition points)</td>
<td>F</td>
</tr>
<tr>
<td>7 = Loss</td>
<td>12 based on Facility GRRG 95% and below (see attached for transition points)</td>
<td>G</td>
</tr>
</tbody>
</table>
Common Reporting Errors

- Incorrect Industry Codes
  - Non-existing codes (example: 9999)
  - The code for Commercial Banks (52211) is used for non-banking entities
  - The code for Holding Companies (55111) is used for non-holding companies

NAICS Association: https://www.naics.com/search/
Best Practices
If there is noteworthy credit information you would like us to know leave a note in the Comment Box:
- Reason for acknowledgement of errors
Credit Utility Fields

- In addition to the Comment Box, you can use the Credit Utility Boxes, to provide information on a particular credit. These boxes can be found while creating a credit for your submission:
Creating Entities

- When you are creating entities, there are several ways to do it:
  - Create the entity from scratch
  - Create entities via search
    - Current submission
    - Prior Submissions
    - Entities from NIC
- You can create a new entity from scratch within the following screen:
Creating Entities

- To save time you can use the search tool on the screen below:
Creating Entities

- Current Submission Search:

- Prior Submission Search:
When you are creating entities for your submission, search NIC and save time. If the entity exists in NIC, you can use it in your submission:
With each quarter, we compare your data to the previous quarter for notable changes. For the following attributes, if changes are found, questions will arise:

<table>
<thead>
<tr>
<th>Credit entity</th>
<th>Origination Date</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity Date</td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>Leverage Lending Flag</td>
<td>Tax ID</td>
<td></td>
</tr>
<tr>
<td>Risk Rating</td>
<td>Internal Entity ID</td>
<td></td>
</tr>
<tr>
<td>Term Loan Exposures (Increases)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit ID</td>
<td>All Data Validation Questions</td>
<td></td>
</tr>
</tbody>
</table>

*Note: All attributes not listed here will be questioned on a case by case basis.*