FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-13-2013
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Final Joint Guidance on Leveraged Lending

Summary: The Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency are issuing the final guidance on leveraged lending activities. This guidance defines leveraged lending, addresses expectations for the content of credit policies, outlines the need for well-defined underwriting and valuation standards, and reinforces the importance of credit analytics and pipeline management for this type of lending. Guidelines for the purchase of participations involving leveraged loans also are included.

Statement of Applicability to Institutions With Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions. However, the majority of community institutions should not be affected by this guidance as they have limited exposure to leveraged credits. FDIC-supervised community institutions that engage in leveraged lending activities should discuss with the FDIC implementation of cost-effective controls appropriate for the complexity of their exposures and activities.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Credit Officer

Attachment:
Final Joint Guidance on Leveraged Lending

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Highlights:

- The final guidance describes supervisory expectations for the sound risk management of leveraged lending activities.
- Institutions engaged in leveraged lending should define this activity in their credit policies and establish prudent risk management processes consistent with the final guidance.
- Underwriting standards for leveraged lending should be clear, measurable, and reflect the institution's risk appetite.
- Leveraged lending programs should have prudent valuation standards, effective pipeline management, strong reporting and credit analytics, and appropriate risk grading.
- Institutions that purchase leveraged loan participations should make a thorough and independent evaluation of risks before committing funds.