FEDERAL RESERVE BANK
OF DALLAS

DALLAS, TEXAS
75265-5906

October 25, 2000

Notice 00-65

TO: The Chief Executive Officer of each financial institution and others concerned in the Eleventh Federal Reserve District

SUBJECT

Bank Regulators' Data Show Continued Increase in Adversely Classified Syndicated Bank Loans

DETAILS

According to data released by three federal bank regulatory agencies, syndicated bank loans adversely classified by examiners increased in 2000 for the second consecutive year. The agencies—the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation—released aggregate data for the past six years and data by major industry sector for the past three years.

Under the Shared National Credit (SNC) Program, the agencies review large syndicated loans annually, usually in May and June. The program, established in 1977, is designed to provide an efficient and consistent review and classification of any loan or loan commitment shared by three or more supervised institutions and totaling $20 million or more.

In 2000, the SNC Program covered 9,848 credits to 5,844 borrowers totaling nearly $2 trillion in drawn and undrawn loan commitments. Of the total, $63 billion, or 3.3 percent, was classified adversely because of default or other significant credit concerns. That was up from 2.0 percent in 1999 and 1.3 percent in 1998, the lowest level of the decade. Classified loans remain low relative to the peak of 10 percent of total commitments experienced in 1991.

Borrowers have drawn down about a third of the $1.95 trillion in loan commitments, or $701 billion. Of this amount, $56 billion, or 8 percent, was classified adversely, up from 5.3 percent in 1999 but down from the peak of 18 percent in 1991.

The percentage of adversely classified credits rose in 2000 for several major industry sectors. Problem loans in the health care services sector continued to increase after significant deterioration in 1999, and health care remains the industry with the highest relative concentration of classified SNC loans. Several traditional manufacturing industries also experienced a significant increase in problem credits, and some industries were heavily influenced by problems encountered by leveraged borrowers that had expanded operations aggressively through acquisitions in recent years.

In addition, credits listed as “special mention” by examiners because of potential weakness—a less serious category than the three adverse classifications: substandard, doubtful, and loss—totaled $36.3 billion in 2000, up from $31.4 billion in 1999. Special mention loans rose to 1.9 percent of total loan commitments, from 1.7 percent in 1999.

U.S. banking organizations hold approximately one-half of the value of loans in the Shared National Credit Program. Foreign banks hold just over 40 percent, and nonbank and nonfinancial companies and investment funds hold the rest.

ATTACHMENTS

Two tables, one showing aggregate data and one showing data by industry, are attached.

MORE INFORMATION

For more information, please contact Bobby Coberly, Banking Supervision Department, (214) 922-6209. For additional copies of this Bank’s notice, contact the Public Affairs Department at (214) 922-5254 or access District Notices on our web site at **http://www.dallasfed.org/banking/notices/index.html.**

Summary of Shared National Credit Program

Item	2000	1999	1998	1997	1996	1995
All Credits						
Total credits						
Total amount (billion $)	1,946.8	1,829.4	1,759.0	1,435.5	1,200.6	1,062.9
Number of commitments	9,848	8,974	10,389	9,099	8,319	7,575
Number of borrowers	5,844	5,587	6,710	6,058	5,607	5,155
Loan amount outstanding (billion $)	700.6	630.4	561.5	423.0	372.5	344.0
Adversely Rated Credits						
Total credits						
By amount (billion $)						
Classified	63.3	37.4	22.0	22.2	27.4	28.2
Substandard	47.9	31.1	17.6	19.5	23.4	24.9
Doubtful	10.8	4.9	3.5	1.9	2.6	1.7
Loss	4.7	1.5	0.9	0.9	1.4	1.5
Special mention	36.3	31.4	22.8	19.6	16.9	18.8
By number						
Classified	783	441	449	452	612	644
Substandard	588	367	335	339	436	486
Doubtful	131	50	66	61	89	82
Loss	64	24	48	52	87	76
Special mention	434	382	330	315	289	303
Loan amount outstanding (billion $)						
Classified	56.0	33.3	18.1	18.1	24.0	25.3
Substandard	41.3	27.1	13.9	16.4	20.5	22.5
Doubtful	10.1	4.7	3.3	1.5	2.2	1.4
Loss	4.6	1.5	0.9	0.1	1.3	1.4
Special mention	27.2	22.9	15.4	12.6	11.6	13.1

Summary of Shared National Credit Program by Industry

Amounts in billions of dollars

Industry	2000			1999			1998		
		Adversely rated credits			Adversely rated credits			Adversely rated credits	
	All credits	Classified	Special mention	All credits	Classified	Special mention	All credits	Classified	Special mention
Manufacturing									
Amount	557.5	19.6	18.0	529.4	12.0	14.4	507.7	8.7	10.9
Percent	100.0	3.5	3.2	100.0	2.3	2.7	100.0	1.7	2.2
Financial services									
Amount	504.0	14.3	2.4	462.6	3.6	1.1	440.4	1.3	0.6
Percent	100.0	2.8	0.5	100.0	0.8	0.2	100.0	0.3	0.1
Transportation, communications, & utilities									
Amount	287.1	6.1	4.3	271.4	2.8	2.8	266.4	1.9	2.2
Percent	100.0	2.1	1.5	100.0	1.0	1.0	100.0	0.7	0.8
Services									
Amount	219.2	13.6	4.0	196.8	10.2	2.8	185.9	2.1	2.6
Percent	100.0	6.3	2.2	100.0	5.2	1.4	100.0	1.1	1.4
Wholesale & retail trade									
Amount	177.3	7.4	4.6	166.3	5.7	5.6	163.8	4.8	3.6
Percent	100.0	4.2	2.6	100.0	3.4	3.4	100.0	3.0	2.2
Oil & gas									
Amount	100.3	0.6	1.2	103.9	2.0	2.1	100.5	0.1	0.4
Percent	100.0	0.6	1.2	100.0	2.0	2.0	100.0	0.1	0.4
Other									
Amount	101.5	1.7	1.7	99.2	1.1	2.7	94.4	3.1	2.5
Percent	100.0	1.7	1.7	100.0	1.1	2.7	100.0	3.2	2.7
All industries									
Amount	1,946.8	63.3	36.3	1,829.4	37.4	31.4	1,759.0	22.0	22.8
Percent	100.0	3.3	1.9	100.0	2.0	1.7	100.0	1.3	1.3

Notes to the tables

Data are as of March 31. Certain data for 1999 have been revised. Industry groupings are based on reported Standard Industrial Classification (SIC) codes for borrowers.

A Shared National Credit is any loan or formal loan commitment extended to a borrower that in original amount aggregates to $20 million or more, and that is shared by three or more unaffiliated, supervised institutions under a formal lending agreement. Before 1999, loans included in the Shared National Credit Program comprised all loans or loan commitments of $20 million or more held by two or more supervised institutions. A supervised institution is considered to be any financial institution subject to supervision by a federal bank regulatory agency; this includes all FDIC-insured banks, their branches, subsidiaries and affiliates; federally licensed U.S. branches and agencies of foreign banks; state-licensed branches and agencies of foreign banks; and bank holding companies and their nonbank subsidiaries, and affiliates. U.S. representative or loan production offices of foreign banks or foreign offices of foreign banks are not considered supervised institutions for these purposes. Foreign offices of U.S. banks are generally not covered by the program.

“Classified” loans are as follows: *Substandard*--A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. *Doubtful*--An asset classified Doubtful has all the weaknesses inherent in those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. *Loss*--Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future. Loans listed for *Special Mention* (also known as “Other assets especially mentioned”) are generally considered to be loans that have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the bank’s credit position at some future date.