Supporting Statement
Leveraged Guidance
OMB Control No. 1557-0315

A. Justification

1. Circumstances that make the collection necessary:

In 2013, the OCC, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (agencies) issued guidance on leveraged lending,[1] which set forth high-level principles related to safe and sound leveraged lending activities, including underwriting considerations, assessing and documenting business valuations, risk management expectations for credits awaiting distribution, stress testing expectations and portfolio management, and risk management expectations. The guidance applies to all financial institutions supervised by the agencies that substantively engage in leveraged lending activities. The number of community banking organizations with substantial exposure to leveraged lending is small; therefore, the agencies generally expect that community banking organizations largely would be unaffected by this guidance.

All financial institutions should have the capacity to properly evaluate and monitor underwritten credit risks, to understand the effect of changes in borrowers' business valuations on credit portfolio quality, and to assess the sensitivity of future credit losses to changes in business valuations. Further, in underwriting such credits, institutions need to ensure that borrowers are able to repay credit as due and at the same time that borrowers have capital structures, including their bank borrowings and other debt, that support the borrower's continued operations through economic cycles (that is, have a sustainable capital structure). Institutions should also be able to demonstrate that they understand their risks and the potential impact of stressful events and circumstances on borrowers' financial condition. The agencies have previously provided guidance to financial institutions for their involvement in leveraged lending.

To support an appropriate review of leveraged lending activities, the guidance recommends institutions have: (i) underwriting policies for leveraged lending, including stress-testing procedures for leveraged credits; (ii) risk management policies, including stress testing procedures for pipeline exposures; and (iii) policies and procedures for incorporating the results of leveraged credit and pipeline stress tests into the firm's overall stress-testing framework.

2. Use of the information:

All financial institutions should have the capacity to properly evaluate and monitor underwritten credit risks, to understand the effect of changes in borrowers' business valuations upon credit portfolio quality, and to assess the sensitivity of future credit losses to changes in business valuations. Further, in underwriting such credits, institutions need to ensure that borrowers are able to repay credit as due and, at the same time, ensure that borrowers have capital structures, including their bank borrowings and other debt, that support the borrower's continued operations through economic cycles (that is, have a sustainable capital structure).

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[1] 78 FR 17766 (March 22, 2013).

Institutions also should be able to demonstrate that they understand their risks and the potential impact of stressful events and circumstances on borrowers' financial condition. The agencies previously have provided guidance to financial institutions for their involvement in leveraged lending. The information collection items within this guidance can assist financial institutions in meetings these goals.

3. Consideration of the use of information technology:

National banks or Federal branches or agencies may use any information technology they have available that allows them to meet the requirements of the guidance.

4. Efforts to identify duplication:

This information is not duplicative, as it is not available elsewhere.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

Not applicable.

6. Consequences to the Federal program if the collection were conducted less frequently:

The guidance imposes the minimum burden necessary for to ensure bank safety and soundness.

7. Special circumstances necessitating collection inconsistent with 5 CFR part 1320:

This information collection is conducted in accordance with the OMB guidelines in 5 CFR part 1320.

8. Efforts to consult with persons outside the agency:

The OCC published a notice in the *Federal Register* for 60 days of comment on February 17, 2016, 81 FR 8126. The OCC received one comment from an individual. On February 17, 2016, the OCC published a notice for 60 days of comment regarding the collection, 81 FR 8126. The OCC received one comment on the 60-day notice from an individual. The commenter questioned the utility and benefit of the information collection aspects of the guidance compared with the burden. Specifically, the commenter stated the information collections on stress-testing for leveraged lending, including for pipeline exposures, is already contained in other OCC or interagency guidance. The commenter also suggested that the OCC should define a leveraged loan and clarify the limits of acceptable leveraged lending risk.

The OCC believes that the information collections provide utility and benefit, as they can allow banks to monitor more closely their leveraged lending activity. Increased monitoring can improve a bank's response to potential deteriorations in the leveraged lending portfolio. Regarding burden, the leveraged lending information collections are voluntary. If a bank decides that the burdens of certain collections would outweigh the costs, then the bank can choose not to implement those collections. While the OCC has issued other guidance documents on stress-testing, either standalone or on an interagency basis, those documents provide higher-level guidance for stress-testing of all assets and liabilities. The leveraged lending guidance provides additional considerations for stress-testing specifically related to leveraged lending, which is not present in other OCC or interagency guidance.

During the initial issuance of the leveraged lending guidance, the OCC considered whether to establish a single definition of leveraged loan or leveraged lending. However, the agencies concluded that leveraged lending is not homogenous across industries or banks, and did not believe that a "one-size-fits-all" definition was appropriate. The OCC continues to believe that those banks following the leveraged lending guidance should have this flexibility in setting the parameters of their leveraged lending and risk management programs.

9. Payment to respondents:

None.

10. Any assurance of confidentiality:

The information will be kept confidential in accordance with applicable laws and regulations.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

<u>Estimated number of respondents</u>: 29.

<u>Estimated average time per respondent</u>: 1,350.4 hours to build; 1,705.6 hours for ongoing use.

<u>Estimated total annual burden hours</u>: 39,162 hours to build, 49,462 hours for ongoing use.

<u>Total estimated burden</u>: 88,624 hours.

Cost of Hour Burden: 88,624 x $101 = $8,951,024.
To estimate average hourly wages we reviewed data from May 2014 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation (NAICS 522100). To estimate compensation costs associated with the rule, we use $101 per hour, which is based on the average of the 90th percentile for seven occupations adjusted for inflation (2 percent), plus an additional 30 percent to cover private sector benefits. Thirty percent represents the average private sector costs of employee benefits.

13. Estimates of annualized costs to respondents (excluding cost of hour burden in #12):

Not applicable.

14. Estimates of annualized cost to the Federal Government:

Not applicable.

15. Changes in burden:

Previous Burden: 81,802 hours.
Current Burden: 88,624 hours.
Difference: +6,822 hours.

The burden increase of 6,822 hours is due to an increase in respondents from 25 to 29. Over the past three years, the OCC has developed a more accurate method to estimate the number of institutions engaged in significant leveraged lending activities, which would be affected by the information collection.

16. ***Information regarding collections whose results are planned to be published for statistical use:***

Not applicable.

17. ***Display of expiration date:***

Not applicable.

18. ***Exceptions to certification statement:***

Not applicable.

B. **Collections of Information Employing Statistical Methods**

Not applicable.