Supporting Statement
Recordkeeping and Disclosure Provisions
Associated with Interagency Guidance on Leveraged Lending
OMB Control No. 3064-0191

A. Justification

1. Circumstances that make the collection necessary:

On March 22, 2013, The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and Federal Deposit Insurance Corporation (FDIC) (collectively the "agencies") published in the Federal Register final Interagency Guidance on Leveraged Lending (the Guidance) (78 FR 17766). The Guidance describes expectations for the sound risk management of leveraged lending activities, including the importance for institutions to develop and maintain:

- Transactions structured to reflect a sound business premise, an appropriate capital structure, and reasonable cash flow and balance sheet leverage. Combined with supportable performance projections, these elements of a safe-and-sound loan structure should clearly support a borrower's capacity to repay and to de-lever to a sustainable level over a reasonable period, whether underwritten to hold or distribute;

- A definition of leveraged lending that facilitates consistent application across all business lines;

- Well-defined underwriting standards that, among other things, define acceptable leverage levels and describe amortization expectations for senior and subordinate debt;

- A credit limit and concentration framework consistent with the institution's risk appetite;

- Sound MIS that enable management to identify, aggregate, and monitor leveraged exposures and comply with policy across all business lines;

- Strong pipeline management policies and procedures that, among other things, provide for real-time information on exposures and limits, and exceptions to the timing of expected distributions and approved hold levels; and,

- Guidelines for conducting periodic portfolio and pipeline stress tests to quantify the potential impact of economic and market conditions on the institution's asset quality, earnings, liquidity, and capital.

The policies and procedures related to the Interagency Guidance on Leveraged Lending are among the many policies and procedures that financial institutions are required to have in order to operate safely and soundly. The Guidance specifically addresses leveraged lending, and sets forth the topics that should be addressed, including: (i) the definition of leveraged lending, (ii) participations purchased, (iii) underwriting standards, (iv) valuation standards, (v) pipeline management, (vi) reporting and analytics, (vii) risk rating, (viii) credit analysis, (ix) problem credit management, (x) deal sponsors, (xi) credit review, (xii) stress-testing, (xiii) conflicts of interest, (xiv) reputational risk, and (xv) compliance.

2. Use of the information:

The guidance outlines high-level principles related to safe and sound leveraged lending activities, including underwriting considerations, assessing and documenting enterprise value, risk management expectations for credits awaiting distribution, stress testing expectations and portfolio management, and risk management expectations, all of which will be reviewed during supervisory examinations to assess how well the financial institution is managing its risk. The Guidance applies to all Federal Reserve-supervised, FDIC-supervised, and OCC-supervised financial institutions substantively engaged in leveraged lending activities.

3. Consideration of the use of improved information technology:

Financial institutions may use the most efficient means available to collect and store information required by the Guidance. Generally, this information is most efficiently collected and stored electronically on a personal computer, existing network, or server. In many cases, banks already have the capacity to collect and store this information electronically. Banks will not be submitting documentation to the FDIC. Rather, FDIC examiners will review this documentation during examinations to assess a bank's management of its risk. Covered banks may use any information technology that permits review by FDIC examiners and meets the requirements of the rule.

4. Efforts to identify duplication:

The information is unique to each institution and is not otherwise available to FDIC as it is not the subject of any existing collection of information.

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

In the great majority of cases, small financial institutions (those with assets less than $10 billion) will not be affected by the Guidance and will not have to collect information. Those very few institutions that may be subject to the Guidance need to develop a system to collect this information if they do not have one, but they should be already collecting this information as a matter of prudential bank management. For these institutions, it should be a straightforward information collection process that can be stored electronically.

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

If this information collection is not conducted, insured financial institutions could be at increased risk of loss due to insufficient aggregation of loan risk and pipeline management. Such risk of loss could represent risk to the taxpayers if the institution failed for these reasons.

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

There are no special circumstances. The collection of information is conducted in a manner consistent with 5 CFR §1320.6.

8. Efforts to consult with persons outside the agency:

A *Federal Register* notice seeking public comment for a 60-day period was published on April 6, 2016 (81 FR 19971). No comments were received.

9. Payment to respondents:

There is no payment or gifts to respondents.

10. Any assurance of confidentiality:

Any information the FDIC collects during an examination of a banking organization will be kept private to extent provided by law.

11. Justification for questions of a sensitive nature:

No questions of a sensitive nature are asked.

12. Burden estimate:

FDIC assumes there may be one new bank subject to this collection of information. The estimated implementation burden for the one respondents is 986.7 hours. Those very few institutions that may be subject to the Guidance should be already collecting this information as a matter of prudential bank management. The estimated ongoing annual burden for the estimated 9 respondents is 4,763.7 hours. The total estimated annual burden is 5,750.4 hours.

	Number of respondents	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated total annual burden hours*
Implementation Burden				
Recordkeeping burden	1	1	986.7	986.7
Total Implementation Burden				986.7
Ongoing Burden				
Recordkeeping burden	9	1	529.3	4,763.7

Total Ongoing Burden	4,763.7
Total PRA Burden	5,750.4

The estimated time per respondent is an average that varies because of differences in the composition of the financial institutions (for example, size distribution of institutions) and volume of leveraged lending activities.

13. <u>Estimate of annualized costs to respondents</u>:

On average, FDIC staff estimates that each of the 9 respondents will spend 529.3 hours at a cost of $90[1] per hour to collect and prepare information annually, resulting in a cost of $428,733. FDIC staff expects that key drivers of costs of compliance will be the magnitude of the changes in activities and operations of each covered bank.

14. <u>Estimate of annualized costs to the government</u>:

None.

15. <u>Changes in burden:</u>

The change in burden is due to the FDIC's estimate that the 9 FDIC-supervised institutions have now completed the implementation phase for this collection and no longer face implementation burden.

16. <u>Information regarding collections whose results are planned to be published for statistical use:</u>

Not applicable.

17. <u>Display of expiration date</u>:

The OMB Control Number for this collection of information is displayed in the *Federal Register* notices published in connection with the extension of this collection; the expiration date of the collection will be available on www.regInfo.gov once OMB concludes its review and approves the renewal of the collection of information.

18. <u>Exceptions to Certification</u>:

[1]To estimate hourly wages, we used the Office of the Comptroller of the Currency's estimate who used data from May 2011 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation. To estimate compensation costs associated with the rule, they used $90 per hour, which is based on the average of the 90th percentile for seven occupations (i.e., accountants and auditors, compliance officers, financial analysts, lawyers, management occupations, software developers, and statisticians) plus an additional 33 percent to cover inflation and private sector benefits.

None.

B. Collections of Information Employing Statistical Methods

Not applicable.