Supporting Statement
Leveraged Lending
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, and risk management considerations for credits awaiting distribution, along with related guidance on stress testing, portfolio management, and risk management. The guidance is useful for any financial institution supervised by the agencies that substantively engages in leveraged lending activities. The number of community banking organizations with substantial exposure to leveraged lending is small; therefore, the agencies generally expect that the guidance will be used more by larger banks than community banking organizations.

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. The guidance provides suggestions to financial institutions on how to assess those factors. Further, in regard to the underwriting of such credits, the guidance recommends that financial institutions have policies to evaluate whether borrowers have the ability to repay credits as they become due, and at the same time whether borrowers have sustainable capital structures, including their bank borrowings and other debt, that support their continued operations through economic cycles. Institutions should also consider whether they understand the risks and the potential impact of stressful events and circumstances on a borrower's financial condition.

To support their leveraged lending activities, the guidance recommends that financial institutions consider developing: (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:

As discussed above, financial institutions should have the capacity to properly evaluate and monitor underwritten credit risks, understand the effect of changes in borrowers' business valuations upon credit portfolio quality, and assess the sensitivity of future credit losses to changes in business valuations. The guidance provides suggestions for how to conduct those

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

activities and recommends various policies that institutions can use to evaluate and monitor those activities.

3. Consideration of the use of information technology:

Respondents may use any information technology they have available that allows them to develop or maintain the policies recommended in the guidance.

4. Efforts to identify duplication:

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

5. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.

To the extent that any small entities do engage in leveraged lending activities, the policies recommended in the guidance can be tailored by the institutions to the level and complexity of their operations and activities.

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

The policies recommended in the guidance may be less useful to the institutions if they are reviewed or updated less frequently.

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 November 13, 2018, 83 FR 56399. No comments were received.

9. Payment to respondents:

None.

10. Any assurance of confidentiality:

The information will be kept private to the extent permitted by law.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

Estimated number of respondents: 29.

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

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

Total estimated burden: 88,624 hours.

Cost of Hour Burden: 88,624 x $117 = $10,369,008.

To estimate wages we reviewed data from May 2017 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 $117 per hour, which is based on the average of the 90th percentile for seven occupations adjusted for inflation (2.2 percent), plus an additional 34.2 percent to cover private sector benefits for financial activities.

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:

There is no change in burden.

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.