

## **Supporting Statement for the Recordkeeping Provisions Associated with Guidance on Leveraged Lending (FR 4203; OMB No. 7100-0354)**

### **Summary**

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, without revision, the Recordkeeping Provisions Associated with Guidance on Leveraged Lending (FR 4203; OMB No. 7100-0354). The Interagency Guidance on Leveraged Lending (Guidance)<sup>1</sup> outlines high-level principles related to safe-and-sound leveraged lending activities. The Guidance includes a number of voluntary recordkeeping provisions that apply to financial institutions engaged in leveraged lending activities for which the Board is the primary federal supervisor, including bank holding companies, savings and loan holding companies, state member banks, and state-chartered branches and agencies of foreign banks that engage in these activities. There are no required reporting forms associated with this information collection (the FR 4203 designation is for internal purposes only). The estimated total annual burden for the FR 4203 is 30,200 hours.

### **Background and Justification**

Leveraged lending is an important type of financing for national and global economies, and the U.S. financial industry plays an integral role in making credit available and syndicating that credit to investors. The agencies issued the Guidance in 2013; it promotes leveraged lending to creditworthy borrowers in a safe-and-sound manner.<sup>2</sup> 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. The Guidance applies to all financial institutions supervised by the Board that engage in leveraged lending activities.

### **Description of Information Collection**

The Guidance includes several provisions that suggest financial institutions engage in recordkeeping. The guidance states that institutions should maintain:

- well-defined underwriting standards that, among other things, define acceptable leverage levels and describe amortization expectations for senior and subordinate debt,
- sound management information systems that enable management to identify, aggregate, and monitor leveraged exposures and comply with policy across all business lines,

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<sup>1</sup> “Interagency Guidance on Leveraged Lending,” March 21, 2013, available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf>. The Guidance was published jointly by the Board, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) (the agencies).

<sup>2</sup> The Guidance updated and replaced prior interagency guidance issued by the agencies and the Office of Thrift Supervision in April 2001. See SR 13-3, “Interagency Guidance on Leveraged Lending,” March 13, 2013 (discussing the relationship between the Guidance and the prior interagency guidance).

- 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.

Many community banks are not subject to the Guidance because they do not engage in leveraged lending. The limited number of community and smaller institutions that are involved in leveraged lending activities may discuss with the Federal Reserve System how to implement these collections of information in a cost-effective manner that is appropriate for the complexity of their exposures and activities.

### **Time Schedule for Information Collection**

The documentation suggested by the Guidance is maintained by each institution; therefore, the information is not collected or published by the Board. The Guidance does not specify the frequency with which institutions should update these documents, but it does suggest that institutions should occasionally review and revise relevant policies and procedures to ensure leveraged lending activities are conducted in a safe-and-sound manner.

### **Public Availability of Data**

There is no data related to this information collection available to the public.

### **Legal Status**

The recordkeeping provisions of the Guidance are authorized pursuant to sections 9(6), 25, and 25A of the Federal Reserve Act (for state member banks, agreement corporations, and Edge corporations, respectively) (12 U.S.C. §§ 324, 602, and 625, respectively); section 5(c) of the Bank Holding Company Act of 1956 (for bank holding companies) (12 U.S.C. § 1844(c)); section 10(b)(3) of the Home Owners’ Loan Act (savings and loan holding companies) (12 U.S.C. § 1467a(b)(3)); and section 7(c)(2) of the International Banking Act of 1978 (state-licensed branches and agencies of foreign banks, other than insured branches) (12 U.S.C. § 3105(c)(2)). The information collections through the FR 4203 are voluntary.

Because these records would be maintained at each banking organization, the Freedom of Information Act (FOIA) would only be implicated if the Board obtained such records as part of the examination or supervision of a banking organization. In the event the records are obtained by the Board as part of an examination or supervision of a financial institution, this information is considered confidential pursuant to exemption 8 of the FOIA, which protects information contained in “examination, operating, or condition reports” obtained in the bank supervisory process (5 U.S.C. § 552(b)(8)). In addition, the information may also be kept confidential under exemption 4 of the FOIA, which protects commercial or financial information obtained from a person that is privileged or confidential (5 U.S.C. § 552(b)(4)).

## Consultation Outside of the Agency

The Board, OCC, and FDIC are discussing whether revisions to the interagency guidance are appropriate.

### Public Comments

On July 3, 2019, the Board published an initial notice in the *Federal Register* (84 FR 31866) requesting public comment for 60 days on the extension, without revision, of the FR 4203. The comment period for this notice expired on September 3, 2019. The Board did not receive any comments. On October 18, 2019, the Board published a final notice in the *Federal Register* (84 FR 55959).

### Estimate of Respondent Burden

Although the Guidance is applicable to all institutions that originate or participate in leveraged lending, the Board estimates that approximately 40 institutions will implement the recordkeeping provisions of the Guidance. Because there is no actual collection of information associated with the leveraged lending guidance, this estimate is conservative and based on available supervisory information. Specifically, the estimate is derived from a count of 32 institutions currently engaged in shared national credits (SNCs), which are credit exposures of \$100 million or more that, at inception, are shared by three or more supervised institutions. The SNC exposure for these institutions does not include exposure to commercial real estate, insurance, or construction. Because the count of institutions engaged in SNCs likely does not include all institutions that originate or participate in leveraged lending, the Board has estimated that the number of respondents for the FR 4203 is somewhat higher than this amount.

As shown in the table below, the estimated total annual burden for the FR 4203 is 30,200 hours. The Board estimates that it would take the 40 Federal Reserve-supervised institutions that are expected to implement these recordkeeping provisions on average 755 hours to maintain the related records annually. These recordkeeping provisions represent less than 1 percent of the Board's total paperwork burden.

<b>FR 4203</b>	<i>Estimated number of respondents<sup>3</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Maintain guidance provisions	40	1	755	30,200

<sup>3</sup> None of the probable respondents to this information collection are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support--table-size-standards>.

The estimated total annual cost to the public for this information collection is \$1,739,520.<sup>4</sup>

### **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

### **Estimate of Cost to the Federal Reserve System**

Since the Guidance does not require the Federal Reserve System to collect any information, the cost to the Federal Reserve System is negligible.

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<sup>4</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$19, 45% Financial Managers at \$71, 15% Lawyers at \$69, and 10% Chief Executives at \$96). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2018*, published March 29, 2019, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.