OF SNICKS AND SNICKERS

by Steve Brown

For those who don't know, the Snickers candy bar is the best selling chocolate bar of all time. Introduced in 1930 by Mars, the Snickers bar is made up of peanut nougat, topped with roasted peanuts, infused with caramel and then all neatly wrapped in milk chocolate. We don't know about you, but just thinking about it gets the mouth watering. As with the Snickers candy bar, banking regulators have their own "Snicks" program. Sure, it doesn't taste as good, nor can you wash it down with a glass of milk, but it too is worthy of noting.

The Shared National Credit (SNC) program, affectionately known as "snicks," is an interagency program participated in by the FDIC, FRB, OCC, OTS and state banking supervisors. The program is governed by an interagency agreement among these regulatory agencies, in order to make sure loans are consistently treated and rated by examination teams operating in the field.

In general, the SNC program is designed to review and assess risk in larger loans shared by multiple financial institutions. The program began in 1975 and was expanded to an interagency format beginning in 1977. To get a feel for the size of the SNC program, last year the regulatory review included $1.2T in credit commitments for total dollar coverage of 41% of all such loans outstanding. The 2009 SNC portfolio totaled $2.9T overall, covering 8,955 credit facilities to approximately 5,900 borrowers.

By reviewing and treating these larger loans in the same fashion, regulators ensure uniform treatment of the loans and increased efficiencies during the examination process. All SNC loans under the program are rated by regulators as Pass, Special Mention, Substandard, Doubtful or Loss. Criticized assets include SNC loans classified by regulators as Special Mention, Substandard, Doubtful or Loss.

For consistency, the regulatory review process occurs annually and it adheres to a pretty strict schedule to keep everything on track. The dates are established among the regulators based on mutual agreement, but the calendar is basically: Mid Dec: Regulators mail request for information to banks; Late Jan: Information from banks is received in Washington DC and distributed to review teams; Late Mar: Materials are forwarded to the SNC Examiner In Charge; Late Apr: Information is updated as of March 31 and examiners begin reading credit files; Early May: Official interagency SNC review date; Late Jun: Preliminary classifications finalized & agent banks notified; Mid Aug: Official notification of results distributed to banks (note that there is a process of re-review on certain selected credits that stretches into Dec as well, so the clock basically runs year round).

By definition, SNCs cover any loan commitments (plus other categories) extended to a borrower of $20mm or larger in size that are held by multiple federally supervised institutions. SNC loans apply to supervised institutions, subsidiaries and affiliates for which the original amount aggregates $20mm or more; and 1) which is shared by 3 or more supervised unaffiliated institutions under a formal lending agreement; or, 2) a portion of which is sold to two or more supervised unaffiliated institutions, with the purchasing institutions assuming their pro rata share of the credit risk. In short, lots of larger loans can and do fall under the SNC program classification, which is why the largest banks originate such loans regularly and SNCs are part of their normal business. That said, any bank can invest in, buy or participate in a SNC up to their legal lending limit.

All examiners and examination teams under the SNC program rely on standard annual ratings for reporting purposes and as such, SNC loans are not reviewed at each individual participating bank (note, however, that examination procedures do instruct exam teams at banks that own such credits to consider material improvement or deterioration of an individual loan and the resulting effect on asset quality, ALLL adequacy, earnings and the overall condition of the bank).

We will talk more about SNCs in coming days and weeks, but for now we need to find a Snickers bar, because the picture has left us hungry and craving chocolate.

BANK NEWS

Licensing

A new rule requires financial institution staff that act as residential mortgage-loan originators to register with the Nationwide Mortgage Licensing System and Registry by a to-be-announced date (believed to be year-end). This new registry will track those qualified to originate mortgages and provide for an oath of standards.

Deficit

The CBO issued a warning that the US's rising debt levels will soon place us at risk of a Euro-like debt crisis.

MBS Investigation

The Federal Housing Finance Agency issued 64 subpoenas to an undisclosed list of firms that package private label securities made of largely subprime and risky mortgages. The subpoenas are a part of the probe investigating whether Fannie Mae and Freddie Mac were misled by these firms to invest in triple-A rated securities.