THE WALL STREET JOURNAL. ONLINE

October 8, 2002 9:49 p.m. EDT

Banks' Business-Loan Losses Hit Record Levels This Year

Troubles in Cable, Telecom Industries Hurt 'Syndicated Loan' Commitments

By REBECCA CHRISTIE
DOW JONES NEWSWIRES

WASHINGTON -- Banks' losses from broadly held business loans hit record levels this year, propelled by troubles in the cable and telecommunications industries, U.S. banking regulators said.

Troubled loans made up 12.6% of the $1.9 trillion in "syndicated loan" commitments, according to this year's annual Shared National Credit survey, up from 9.4% last year. Syndicated bank loans are loans that are valued at $20 million, at least, and that involve three or more investors. Typically, a bank will make the loan and then sell part or all of it to other investors to spread the risk associated with such a large transaction.

Write-offs surged to a record $19.6 billion, with about 40% stemming from the communications and cable industries.

Regulators said banks are well-positioned to cushion the losses and protect against future damage. But the banking industry has been affected by corporate woes, especially as reflected in the increase in write-offs.

"It's an alarming number if you look at it relative to historical numbers," said David Gibbons, deputy comptroller of credit risk for the Office of the Comptroller of the Currency. But he added, "Relative to banks' capability to absorb it, it's not alarming at all."

The Federal Reserve, the Federal Deposit Insurance Corporation and OCC conduct the annual review on trends in these loans. This year's report showed that syndicated loan quality remained generally weak, though credit conditions are not declining as rapidly as they did last year.

"While we expect the rate of deterioration to level off, significant gains won't be realized until corporate profits improve and corporate debt is reduced," FDIC Chairman Don Powell said.

Telecom and cable firms saw their classified loans surge to 27% of total commitments, up from 3.9% in 2001. Classified loans are loans rated "substandard," "doubtful" or "loss."

Other industries also ran into trouble. Oil, natural-gas, pipeline and utilities firms had a 7.5% classified-loan rate this year, up from 1.9% the year before.

But troubled loans to the manufacturing industry appeared to level off. Classified loans made up 12.1% of loan commitments to manufacturers, up from 10.6% last year. This rise stemmed from a decline in total credit outstanding rather than a significant rise in problem credits, the report said.

Syndicated-loan commitments were spread fairly evenly between foreign and U.S. banks, the report said. About 10% of loans were held by nonbank organizations; that group also saw the largest increase in classified loans.

OCC's Mr. Gibbons said nonbanks that purchase parts of syndicated loans tend to be sophisticated investors who are aware of the risks in their portfolio.

Overall, the industry has benefited from wider distribution of credit risk to a variety of institutions, he said. Institutions with the highest leverage continue to be the ones facing the greatest risk from economic downturn.

The problem percentage of syndicated loans outstanding remains well below its 1991 level, when 15.9% of loan commitments were rated "at risk." From 1995 to 2000, the percentage hovered in a range between 2.5% and 5.1%.

Write to Rebecca Christie at rebecca.christie@dowjones.com[1]

URL for this article:
http://online.wsj.com/article/0,,SB1034118627940448 36.djm,00.html

Hyperlinks in this Article:
(1) mailto:rebecca.christie@dowjones.com

Updated October 8, 2002 9:49 p.m. EDT