

US Banks

Regulatory “R” in high gear: Restrictive leverage lending guidelines revoked

Industry Overview

OCC and FDIC withdraw Leveraged Lending Guidance

On Dec 5, regulators rescinded the 2023 Guidance on Leveraged Lending that placed significant restrictions on banks. The agencies expect banks to manage leveraged lending exposures consistent with general principles for safe and sound lending. Per the statement, “the prior guidance was overly restrictive and resulted in a significant drop in leveraged lending market share for regulated banks and significant growth for nonbanks. In addition, the guidance was overly broad and captured certain types of loans that were not intended to be covered, including loans to investment-grade companies.”

Unleashing bank lending with \$1trn+ lending capacity

We view the update as another significant and potentially game-changing shift which could unlock bank lending. By our estimates, excess capital at the banks could support over \$1 trillion in lending. Banks traditionally participate in the leveraged lending market by providing or arranging financing and by facilitating the syndication process. Banks also have indirect exposure to leveraged borrowers via lending to business development companies and certain debt funds, as well as investments in collateralized loan obligations that contain securitized leveraged loans.

Treasury emphasizes need to unlock bank lending

In an interview last week, Treasury Secretary Scott Bessent expressed concern about the growth of private credit, which could exacerbate turmoil during economic downturns as such lenders could pull back more aggressively than banks during periods of economic stress. The Secretary suggested that the growth of private credit was a consequence of overly stringent bank regulation and the Treasury department was working with the banking regulators to create more credit in the regulated banking system.

Guidance on venture loans updated

On Friday the OCC also updated guidance on venture loans — commercial loans to companies in an early, expansion or late stage of corporate development, such as startups. The previous guidance was seen as restricting bank lending to innovative companies. The updated guidance “reflects the OCC’s policy of not discouraging banks from engaging in prudent venture lending activities. Instead, it is the responsibility of the bank’s board and management to ensure that venture loans are consistent with the bank’s risk appetite, maintained within established risk limits, appropriately documented and underwritten, accurately risk-rated, and sufficiently reserved.”

Our view: Regulatory arbitrage narrowing

We see significant room-to-run on the regulatory shift which should not only boost growth/profitability profile of the banks (particularly the GSIBs), but also lead to a materially improved competitive positioning vs the non-banks as the regulatory arbitrage narrows. The direction of travel currently is to reduce or remove regulatory frameworks seen as unduly restrictive on banks, as opposed to introducing or increasing regulation for nonbank private credit lenders. Relevant research: [US Banks: Regulatory Shift Has Significant Room to Run](#)

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Ebrahim H. Poonawala
Research Analyst
BofAS
+1 646 743 0490
ebrahim.poonawala@bofa.com

Brandon Berman
Research Analyst
BofAS
+1 646 855 3933
brandon.berman@bofa.com

Eric Dray, CFA
Research Analyst
BofAS
+1 646 855 5780
eric.dray@bofa.com

Gabriel Angelini
Research Analyst
BofAS
+1 646 855 3081
gabriel.angelini@bofa.com

Daniel Cocchiara
Research Analyst
BofAS
+1 646 855 1870
daniel.cocchiara@bofa.com

Acronyms

OCC: Office of the Comptroller of the Currency

FDIC: Federal Deposit Insurance Corporation

GSIB: Global Systemically Important Banks



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