

E&P Companies Continuing to Stumble Under the SNC Review

August 26, 2016 Jeff Nichols

PRACTICES Energy, Power and Natural Resources

The Office of the Comptroller of the Currency (OCC) is continuing to scrutinize loans to exploration and production (E&P) companies secured by oil and gas collateral (RBLs). Following the substantial drop in commodity prices over the past two years, the OCC has twice issued revised guidelines for evaluation of RBLs. In its recently released SNC Program 1st Quarter 2016 Review, the OCC noted that the overall level of special mention and classified assets in the SNC portfolio “continues to be higher than observed in previous periods of economic expansion” and, in particular, a high level of credit risk stems from riskier loans made to oil and gas (O&G) borrowers, who have a reduced ability to repay their debt in the current commodity price environment. This paper examines the effect of the SNC classifications on a specific group of 58 E&P companies, focusing on the metric that creates the biggest hurdle for them – the leverage test recently introduced by the OCC.

The SNC classification system evaluates large loans shared among national banks. After a SNC regulatory review, loans and commitments in a bank’s portfolio not considered as passing loans are typically given one of the following ratings: doubtful, loss, special mention, or substandard. An asset that is rated substandard, doubtful or loss is also known as a classified commitment. Given the recent decline in commodity prices, it is not surprising that the incidence of non-passing loans in the O&G sector has increased...

To read the full article, please [click here](#).

To read the *Wall Street Journal* article quoting this analysis, please [click here](#) (subscription required).