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Federal Reserve Releases Results of Stress Tests

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Yesterday, the Federal Reserve Board issued the aggregate and individual results of the supervisory stress test (also known as the Dodd-Frank Act Stress Test or DFAST, as these tests are required by Section 165 of the Dodd-Frank Act), which assesses whether banks are sufficiently capitalized to absorb losses during a severe recession.

The Federal Reserve stated that “the 23 large banks subject to the test this year have sufficient capital to absorb more than $540 billion in losses and continue lending to households and businesses under stressful conditions.”

We can expect that over the next week, many banks will release securities filings with their stress capital buffer (“SCB”) requirements under the Comprehensive Capital Analysis and Review (“CCAR”). The Federal Reserve is likely to publish all applicable banking organizations’ SCBs during the third quarter. The SCB is driven by the DFAST results and is calculated by adding the maximum decline in each banking organization’s common equity tier 1 (“CET1”) ratio under the DFAST’s severely adverse scenario plus four quarters of planned dividends. The minimum SCB is 2.5%. This is added to the 4.5% capital regulation minimum and any G-SIB surcharge or countercyclical capital buffer in place to show the total CET1 required.

The Bank Policy Institute (“BPI”), a leading trade association for large banks, released a statement regarding the release of the stress results. BPI noted that the results show large banks’ resilience and stated: “[o]verall, the maximum decline in the aggregate common equity tier 1 capital ratio – a key metric in the test – decreased compared to last year’s tests. This decrease will likely translate into modestly lower capital requirements for the banks subject to the test.”