

# Press Release

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June 25, 2020

## Statement by Vice Chair for Supervision Quarles

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Today's actions by the Board to preserve the high levels of capital in the U.S. banking system are an acknowledgement of both the strength of our largest banks as well as the high degree of uncertainty we face. The coronavirus outbreak and especially the containment measures taken in response, which in the aggregate we can call the "COVID event," have roiled global markets and the U.S. economy, where the unemployment rate has soared to a post-war high, and where households and businesses continue to face tremendous challenges.

While the prospects of a recovery will largely depend on the course of the COVID event, the banking system has served as a source of strength, not strain, in the current crisis. In contrast to the 2007-2009 financial crisis, our largest banks entered this crisis with high levels of capital and liquidity—\$1.2 trillion in common equity and \$3.3 trillion in high quality liquid assets. We have encouraged banks to use that capital and liquidity to promote safe lending. The banks have responded by sharply increasing their lending, absorbing a crush of deposits, and working constructively with borrowers in these challenging times. Many of these banks also decided to conserve capital through the voluntary suspension of share repurchases in the second quarter. In recent years, over 70 percent of the capital distributions of the largest, most systemic banks, came in the form of share repurchases.

This year, the Board not only conducted its stress test under a severely adverse scenario, but, in light of the uncertainty associated with the COVID event, the Board also conducted additional sensitivity analysis under a range of plausible downside scenarios. As in past years, we are disclosing both firm-specific and aggregate results of our stress test, based on the results of the severely adverse scenario. The sensitivity analysis, as the name implies, was not a stress test. Significantly, given the need for timely analysis, we did not follow our scenario design policy statement in formulating the alternative scenarios and we did not publicly disclose these scenarios ahead of time; we chose near approximations of economic conditions rather than detailed scenarios; and we made targeted adjustments to, rather than a full recalculation of, the balance sheets of banks to better reflect the current conditions. For these reasons, the sensitivity analysis was aimed at understanding the performance of the banking system as a whole; we did not provide any firm with firm-specific results nor are we publicly disclosing firm-specific results. To be clear though, we have released comprehensive results from the sensitivity analysis and in many dimensions—capital ratios, loan loss rates, and loan loss amounts.

As demonstrated in our public disclosure of the sensitivity analysis, the banking system remains well capitalized under even the harshest of these downside scenarios—which are very harsh indeed. While I expect banks will continue to manage their capital actions and liquidity risk prudently, and in support of the real economy, there is material uncertainty about the trajectory for the economic recovery and its impact on banking organizations. As a result, the Board is taking action to assess banks' conditions more intensively and to require the largest banks to adopt prudent measures to preserve capital in the coming months.

For the first time in the ten years we have been doing stress testing, we are exercising the option that has always been in our capital framework of requiring all large banks to reassess their capital needs and resubmit their capital plans to the Federal Reserve later this year. The Board will use this information to make a further assessment of the banks' financial conditions and risks. As a result of the required resubmission, and following our capital framework, the Board is taking two actions to preserve capital among the large banks

subject to the supervisory stress test: requiring banks to suspend their share repurchase programs and limiting dividend payments, each for at least an additional quarter, with an option to extend those limitations as we learn more about the evolution of the COVID event. In particular, banks will be prohibited from increasing their dividends and will be further limited in their dividend payments based on recent income. This approach builds on our existing standards on capital distributions, which restrict distributions based on recent income. If the circumstances warrant, we will not hesitate to take additional policy actions to support the U.S. economy and banking system. I support today's actions to ensure banks remain an ongoing source of strength to the U.S. economy.

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