Press Release

December 18, 2020

Federal Reserve Board releases second round of bank stress test results

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The Federal Reserve Board on Friday released a second round of bank stress test results this year, which showed that large banks had strong capital levels under two separate hypothetical recessions.

"The banking system has been a source of strength during the past year and today's stress test results confirm that large banks could continue to lend to households and businesses even during a sharply adverse future turn in the economy," said Vice Chair for Supervision Randal K. Quarles.

The Board's stress tests help ensure that large banks can support the economy during economic downturns. The tests evaluate the resilience of large banks by estimating their losses, revenue, and capital levels—which provide a cushion against losses—under hypothetical scenarios over nine future quarters.

Earlier this year, the Board conducted its annual stress test and additional analysis in light of the COVID event. Those results found that banks generally had strong levels of capital, but considerable economic uncertainty remained. In response, the Board put several restrictions in place to ensure that banks would preserve capital, including suspending share repurchases and limiting dividends. With the restrictions in place, large banks have recently built capital, despite setting aside about $100 billion in loan loss reserves.

This stress test includes two hypothetical scenarios with severe global recessions. The first scenario featured an unemployment rate that spiked to 12.5 percent and then declined to about 7.5 percent, while the second scenario included a peak unemployment rate of 11 percent followed by a more modest decline to 9 percent.

Under both scenarios, large banks would collectively have more than $600 billion in total losses, considerably higher than the first stress test this year. However, their capital ratios would decline from an average starting point of 12.2 percent to 9.6 percent in the more severe scenario, well above the 4.5 percent minimum. All firms' risk-based capital ratios would remain above the required minimum.

In light of the ongoing economic uncertainty and to preserve the strength of the banking sector, the Board is extending the current restrictions on distributions, with modifications. For the first quarter of 2021, both dividends and share repurchases will be limited to an amount based on income over the past year. If a firm does not earn income, it will not be able to pay a dividend or make repurchases.

Additionally, the firms' capital requirements will not be reset at this time. With the current capital requirements and distribution restrictions in place, banks have built capital over the past year. The modified restriction will continue to preserve capital and ensure that large banks can still lend to households and businesses.

The Board will continue to evaluate the resiliency of large banks and monitor financial and economic conditions.

For media inquiries, call 202-452-2955.

December 2020 Stress Test Results (PDF)

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