

# CONGRESSIONAL OVERSIGHT PANEL



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## Congressional Oversight Panel Releases Oversight Report on Stress Tests

June 9, 2009

For Immediate Release

### Panel finds that stress test models were reasonable, but serious concerns remain

WASHINGTON, D.C.—On June 9, 2009, the Congressional Oversight Panel released its June Oversight Report, “Stress Testing and Shoring Up Bank Capital,” which examines the recent stress tests conducted on America’s 19 largest bank holding companies (BHCs).

In early February, Treasury and the Federal Reserve Board announced an effort to conduct comprehensive and simultaneous reviews of the nation’s largest BHCs—those with more than \$100 billion in assets—to determine their ability to remain well capitalized if the recession leads to deeper than expected losses. The effort, called the Supervisory Capital Assessment Program (SCAP), is referred to more informally as the stress tests. BHCs found to be in need of an additional capital buffer were given six months to raise the necessary capital. By ensuring that America’s largest banks could weather the financial storm, stress testing aimed to restore market confidence and help put the economy back on track.

The Panel’s report examines how effectively Treasury and the Federal Reserve conducted the stress tests, specifically reviewing the government’s economic assumptions, their methods of calculating bank capitalization, their release of information to the public, and whether the stress tests should be repeated in the future. To help make these assessments of the stress tests, the panel engaged two internationally renowned experts in risk analysis, University of California at Berkeley Professors Eric Talley and Johan Walden, to review the stress test methodology.

The Panel finds that, on the whole, the stress tests were based on a solidly designed working model. However, serious concerns remain, and the Panel offers several recommendations for consideration moving forward:

- The unemployment rate climbed to 9.4% in May, bringing the average unemployment rate for 2009 to 8.5%. If the monthly rate continues to increase, the 2009 average may exceed the 8.9% assumed under the more adverse scenario, suggesting that the stress tests should be repeated if that occurs.
- Stress testing should also be repeated so long as banks continue to hold large amounts of toxic assets on their books.
- Between formal tests conducted by the regulators, banks should be required to run internal stress tests and should share the results with regulators.
- Regulators should have the ability to use stress tests in the future when they believe that doing so would help to promote a healthy banking system.

This report strives to provide Treasury and the Congress with the necessary context and comparative analysis to understand the possible policy choices. The Panel hopes to assist Congress and Treasury officials in weighing the available options as the nation grapples with the worst financial crisis it has faced since the Great Depression.

The full report can be found at <http://cop.senate.gov/documents/cop-060909-report.pdf>.

*The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform.*

*The Panel members are: Congressman Jeb Hensarling (R-TX), Richard H. Neiman, Superintendent of Banks for the State of New York, Damon Silvers, Associate General Counsel of the AFL-CIO, former U.S. Senator John E. Sununu (R-NH) and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.*

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