

June 2021 Dodd-Frank Act Stress Test (DFAST)

Results summary and highlights



The June 2021 Dodd-Frank Act Stress Test (DFAST) results published by the Federal Reserve Board (FRB) demonstrated that all 23 firms participating in this cycle were well-capitalized under the severely adverse scenario published by the FRB in February 2021. The majority of banks saw their stressed risk-based capital ratios improve, compared to both prior stress-test results released in June 2020 and re-submission results released in December 2020.

This testing exercise was an off-year for Category IV banks (total assets between \$100Bn and \$250Bn), however, four out of 14 banks elected to participate in this cycle.

Key highlights from the June 2021 Stress Test Results

Banks exhibited capital strength. Firms continued to show resilience, with all participating firms withstanding another severely adverse scenario after facing an actual economic downturn due to the COVID-19 pandemic. Overall, the banks maintained a significant cushion above the required minimum capital levels, reflecting recent strong earnings and lower expected losses.

Capital restrictions were lifted. The FRB has ended temporary restrictions on capital distribution for all participating banks. Strong capital positions have been reinforced by pullbacks in dividends and suspension of share repurchases, which are expected to resume following these results.

Stress Capital Buffer implementation is imminent. The stress capital buffer (SCB) will become effective on October 1, 2021 and is expected to simplify the capital requirements framework while providing greater transparency and objectivity. The favorable DFAST results may translate into less stringent SCB requirements for several of the participating banks.

As banks cleared another hurdle by passing this round of stress tests, the sector's outlook remains optimistic with the steady economic recovery continuing. Despite the FRB implementing the stress capital buffer, there is still regulatory uncertainty on the horizon, with changes in leadership expected and the possibility of additional scenario requirements included in future tests.



All 23 participating banks passed, demonstrating strong capital positions.

COVID-related capital distribution restrictions were lifted.

Improved performance relative to 2020 is likely to result in lower Stress Capital Buffer requirements from October 2021 onwards.

Increased capital disbursement expected going forward as firm's release built-up capital.

Summary of results from FRB’s severely adverse scenario

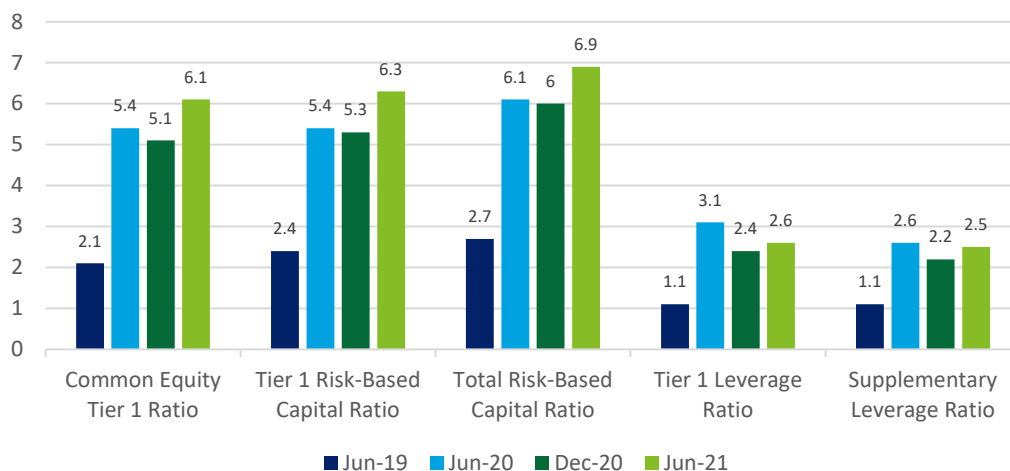
Key ratios at an aggregate level

The June 2021 stress test results indicate that the DFAST banks, in aggregate, appeared adequately capitalized to withstand additional stress even after feeling the effects of the recent economic downturn.

Aggregate risk-based capital ratios showed a marked improvement compared to both the June 2020 and December 2020 results. Leverage ratios improved somewhat compared to the December 2020 results; however, they were still below the values from the June 2020 result, as banks have seen deposits increase while continuing to retain cash and safer assets on their balance sheets.

Severely Adverse Scenario		Aggregate Results and Cushion over Minimum (%)			
		Actual Q4 2020	Stress Minimum	Minimum Required	Cushion Over Minimum
Ratio	Common Equity Tier 1 Ratio	13.0	10.6	4.5	6.1
	Tier 1 Risk-Based Capital Ratio	14.7	12.3	6.0	6.3
	Total Risk-Based Capital Ratio	17.1	14.9	8.0	6.9
	Tier 1 Leverage Ratio	8.0	6.6	4.0	2.6
	Supplementary Leverage Ratio	7.7	5.5	3.0	2.5

Aggregate Ratio Cushion over Minimum under Stress (%)



Source: Dodd-Frank Act Supervisory Stress Test Results, June 2019, June 2020, December 2020, and June 2021

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Severely adverse scenario

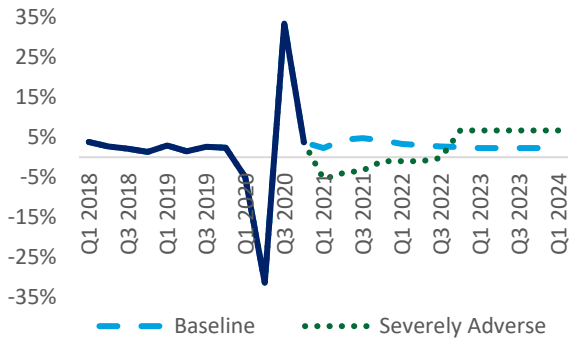
The severely adverse scenario used to project this year’s results incorporated a sharp curtailment in global economic activity as financial conditions tighten during the shock. In comparison to December 2020 scenarios, there was a slightly greater increase in the unemployment rate in the US but a lower peak unemployment rate (10.8% in June 2021 vs 12.5% in Dec 2020), largely unchanged interest rates, a smaller increase in the housing prices and a larger decline in commercial real estate price index. The more significant stress impact on the unemployment rate in this cycle is aligned with the FRB’s scenario design framework, which projects a harsher economic downturn after periods of stronger economic performance.

Severely Adverse Scenario		Peak/Trough Stressed Scenario (%)			
		December 2020		June 2021	
		Peak	Trough	Peak	Trough
Metric	Real GDP Growth	24	-5.9	6.7	-5.5
	Unemployment Rate	12.5	7.6	10.8	7.4
	U.S. Market Volatility Index	70	26.5	70	27.3
	U.S.BBB Corporate Yield	6.1	2.1	6	3.6
	House Price Index	220	161	223	172

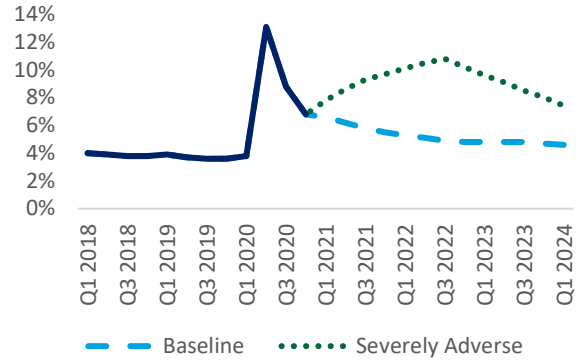
Source: Dodd-Frank Act Supervisory Stress Test Scenarios, September 2020, and February 2021

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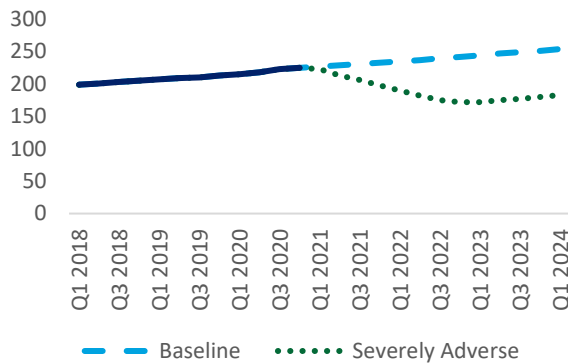
Real GDP growth %



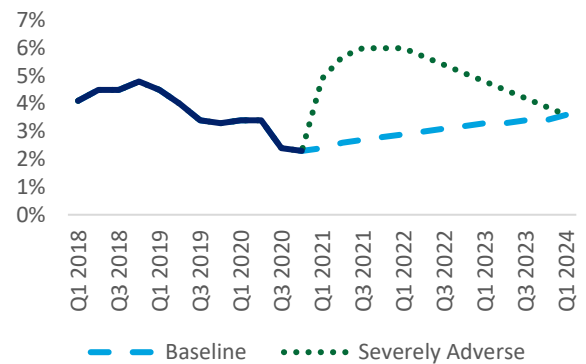
Unemployment Rate



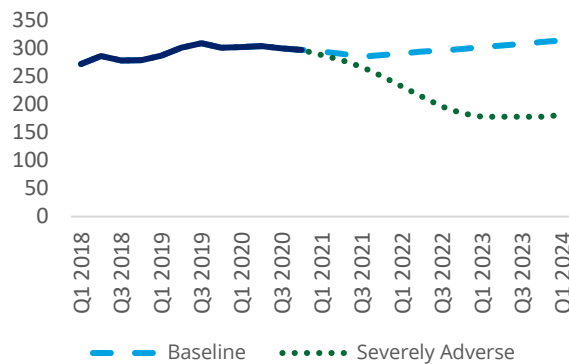
House Price Index



BBB Corporate Yield



Commerical Real Estate Price Index

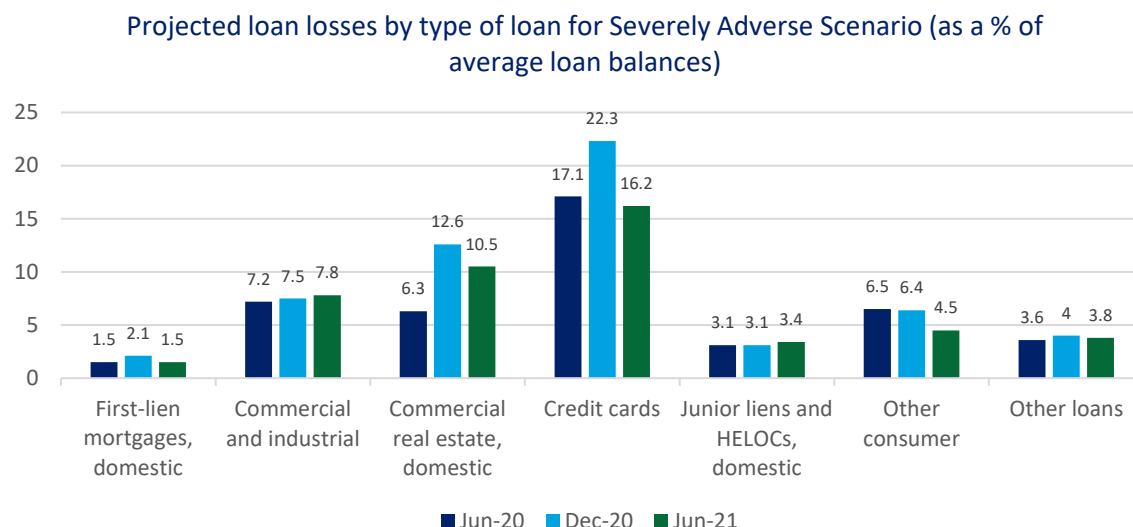


Source: Dodd-Frank Act Supervisory Stress Test Scenarios, February 2021

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Loan loss rates

Loan loss rates for the banks generally decreased for the June 2021 round as compared to December 2020. Loan loss rates on CRE loans and credit cards combined have dropped significantly since the December 2020 results, reflecting the recovery in hotel vacancy rates, pick-up in travel demand, reduced consumer spending, and higher loan repayment rates.



Source: Dodd-Frank Act Supervisory Stress Test Results, June 2020, December 2020, and June 2021

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Pre-Provision Net Revenue (PPNR)

The reduction of PPNR compared to the previous rounds of testing is partly attributed to a low yield environment resulting in reduced net interest margins, asset price appreciation, and equity market volatility. The impact levels to PPNR varied widely across firms, with a handful of firms showing improvements.

PPNR as % of Average Assets in Severely Adverse Scenario	June 2020	December 2020	June 2021
	2.6	2.0	1.7

Source: Dodd-Frank Act Supervisory Stress Test Results, June 2020, December 2020, and June 2021

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Loan Losses

The overall loan losses mix experienced a decrease on a dollar basis due to fewer banks participating in the current recent rounds of testing. The overall stressed losses for the participating firms were similar to DFAST 2020, however there were changes in the composition of losses due to differences in loan and borrower characteristics.

Losses in Severely Adverse Scenario (in \$ Billions)	June 2020	December 2020	June 2021
	432.5	514.3	353.0

Source: Dodd-Frank Act Supervisory Stress Test Results, June 2020, December 2020, and June 2021

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Projected Risk Weighted Assets (RWA) in Severely Adverse Scenario

A considerable decline has been observed in projected RWAs in the Severely Adverse Scenario which can primarily be attributed to fewer banks participating in the June 2021 cycle.

Projected RWAs in Severely Adverse Scenario (in \$ Billions)	June 2020	December 2020	June 2021
	10,255.70	10,275.00	9,175.30

Source: Dodd-Frank Act Supervisory Stress Test Results, June 2020, December 2020, and June 2021

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Sources of data utilized within this document from the Board of Governors of the Federal Reserve System are listed below.

1. Dodd-Frank Act Stress Test 2021: Supervisory Stress Test Results, June 2021:
<https://www.federalreserve.gov/publications/files/2021-dfast-results-20210624.pdf>
2. December 2020 Stress Test Results: <https://www.federalreserve.gov/publications/files/2020-dec-stress-test-results-20201218.pdf>
3. Dodd-Frank Act Stress Test 2020: Supervisory Stress Test Results, June 2020:
<https://www.federalreserve.gov/publications/files/2020-dfast-results-20200625.pdf>
4. Dodd-Frank Act Stress Test 2019: Supervisory Stress Test Results, June 2019:
<https://www.federalreserve.gov/publications/files/2019-dfast-results-20190621.pdf>
5. Supervisory Scenarios for the Resubmission of Capital Plans in the Fourth Quarter of 2020, September 2020:
<https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200917a1.pdf>
6. Stress Test Scenarios February 2021: <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210212a1.pdf>
7. Tailoring Rule: <https://www.federalreserve.gov/aboutthefed/boardmeetings/files/tailoring-rule-visual-20191010.pdf>
8. Press Release - Federal Reserve Board releases hypothetical scenarios for its 2021 bank stress tests:
<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210212a.htm>

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