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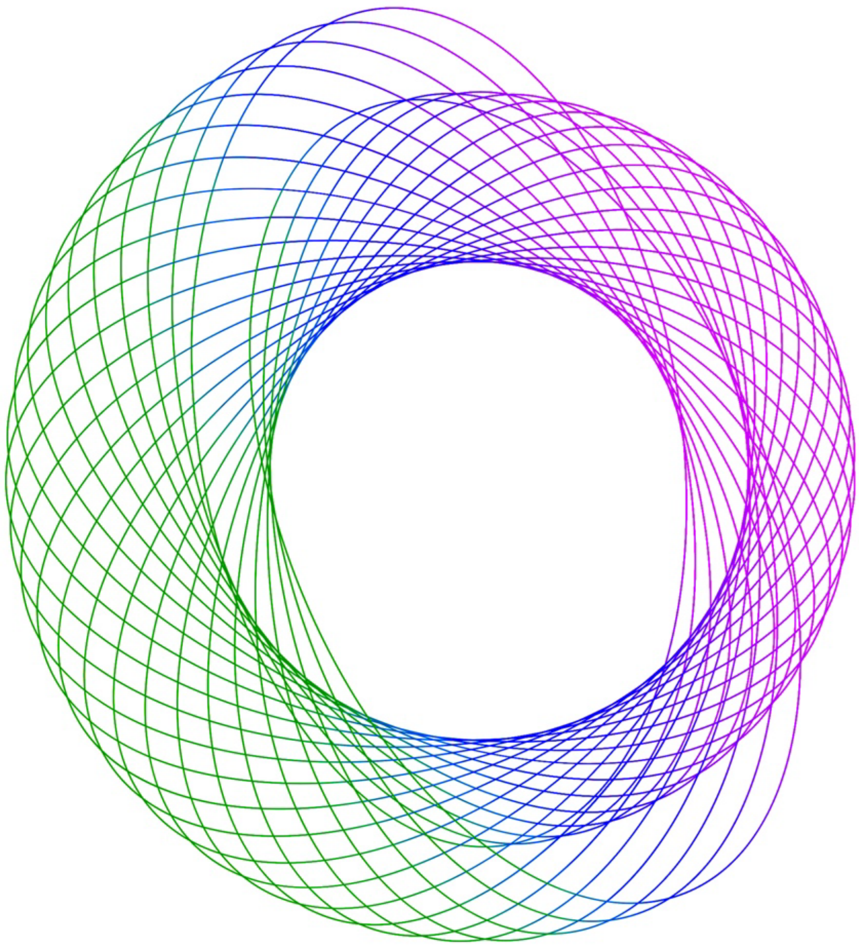


Dodd-Frank Act Stress Test (DFAST) Results June 2022

June 27, 2022

2022 stress test results summary and highlights

The Board of Governors of the Federal Reserve System (FRB) released the results of the latest Dodd-Frank Stress Test (DFAST) on June 23, 2022.[1] All 33 banks subject to the stress test stayed above their minimum capital requirements in the stress scenario, even with aggregated projection of $612 billion in losses under the hypothetical severe downturn where the banks had more than twice the amount of minimum capital required.

While the banks remain strong under the stress scenario, it is important to note that the scenario was created before the Ukraine invasion and the current inflationary conditions.

2022 stress test scenario

Banks with total consolidated assets of more than $100 billion are subject to the FRB's stress tests. This year, stress tests evaluated the capital planning processes and adequacies of 33 large banks. The stress scenario for this year included a severe global recession accompanied by a period of heightened stress in commercial real estate and corporate debt markets. Key components of the severely adverse stress scenario are noted below:

- US unemployment rate rising by 5.75 percentage points to a limit of 10%
- Commercial real estate prices declining by 40%
- Corporate bond spreads widening
- More than 50% collapse in equity markets and spike in market volatility
- Sharp decline of 3.5% in real GDP in 2022 followed by a robust recovery
- A 7-percentage-point dip in CPI inflation
- Housing prices decreasing by 28.5%

The severely adverse scenario this year considered an amplified economic downturn, greater increase in the US unemployment rate, and larger increases in treasury rates for longer tenors as compared to the 2021 scenario.

- All 33 banks subject to the stress test maintained capital levels well above the minimums under the FRB's stress scenario
- 10 additional banks[2] participated in this year's round of stress testing as compared to last year
- Regional, custody, and broker-dealer focused banks fared better under stress than the universal banks
- The severely adverse scenario considered a greater increase in unemployment rate than the 2021 scenario, and a severe global recession, with heightened stress in commercial real estate and corporate debt markets

Key highlights from the June 2022 stress test results

Aggregate loan losses were higher because of a more severe scenario relative to last year's. Most of the hypothetical $612 billion in losses came from $463 billion in loan losses and $100 billion in trading and counterparty losses. Large banks reported more than $50 billion in additional losses compared to the 2021 results. These were largely related to payment default, counterparty default for derivative positions, and fair value adjustments.

Overall, banks continued to show resilience, withstanding a tougher severely adverse scenario than 2021. Overall, the banks maintained a significant cushion against losses showing:

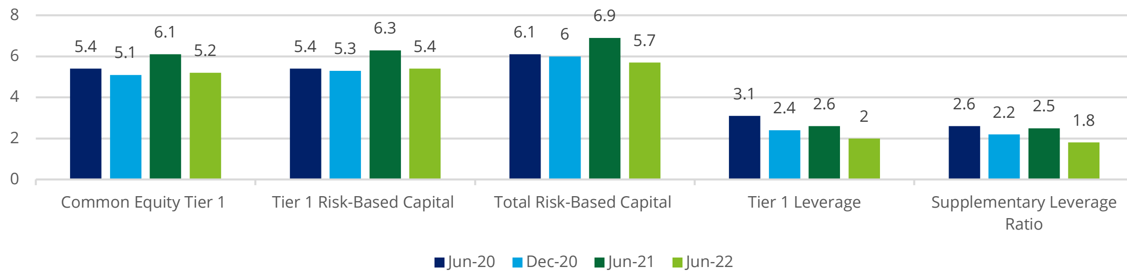
- A projected decline in aggregate common equity tier 1 (CET1) ratio by 2.7 percentage points to a minimum of 9.7%, which is more than twice the minimum required of 4.5%, showing the ability for continued operations
- A reduction in aggregated total capital ratio by 2.4% to a minimum of 13.7%, which is comfortably above the minimum 8% required, suggesting banks are well capitalized
- Some Category I banks notably appeared to have a tighter capital position potentially resulting in reduced share repurchase plans

Key ratios at an aggregated level

The June 2022 stress test results indicate that the banks, in aggregate, appeared adequately capitalized and able to absorb nearly $612 billion in losses. All key capital ratios—Common Equity Tier 1, Tier 1 Risk-Based, Total Risk-Based, Tier 1 Leverage, and Supplementary Leverage—showed a decline compared to the June 2021 results.

Severely adverse scenario		Aggregate results and cushion over minimum (%)			
		Actual Q4 2021	Stress minimum	Minimum required	Cushion over minimum
Ratio	Common equity tier 1	12.4	9.7	4.5	5.2
	Tier 1 risk-based capital	14.1	11.4	6.0	5.4
	Total risk-based capital	16.1	13.7	8.0	5.7
	Tier 1 leverage	7.5	6.0	4.0	2.0
	Supplementary leverage	6.1	4.8	3.0	1.8

Aggregate ratio buffers over minimum under stress (%)



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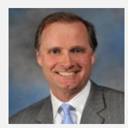

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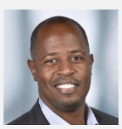

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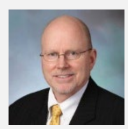

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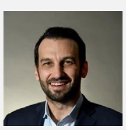

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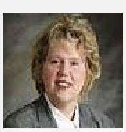

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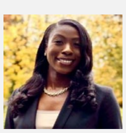

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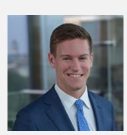

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Endnotes

1 Board of Governors of the Federal Reserve System (FRB), *2022 Federal Reserve Stress Test Results*, June 2022.

2 A total of 33 banks participated in this year's stress test. In 2021, 23 banks participated in the stress test because the smallest banks subject to the supervisory stress test are generally only required to participate every other year. FRB, *2022 Federal Reserve Stress Test Results*, June 2022.

3 FRB, *2022 Federal Reserve Stress Test Results*, June 2022.

4 FRB, "Federal Reserve Board releases results of annual bank stress test, which show that banks continue to have strong capital levels, allowing them to continue lending to households and businesses during a severe recession," press release, June 23, 2022.

5 FRB, "2022 Stress Test Scenarios," Dodd-Frank Act Stress Test Publications, last updated: February 16, 2022.

6 FRB, "Federal Reserve Board releases hypothetical scenarios for its 2022 bank stress tests," press release, February 10, 2022.