Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Reserve Releases Summary Results of Bank Stress Tests

On Thursday, March 7, 2013, the Federal Reserve announced the nation's largest bank holding companies have continued to improve their ability to withstand an extremely adverse hypothetical economic scenario and are collectively in a much stronger capital position than before the financial crisis, according to the summary results of bank stress tests.

Reflecting the severity of the stress scenario--which includes a peak unemployment rate of 12.1 percent, a drop in equity prices of more than 50 percent, a decline in housing prices of more than 20 percent, and a sharp market shock for the largest trading firms--projected losses at the 18 bank holding companies would total $462 billion during the nine quarters of the hypothetical stress scenario. The aggregate tier 1 common capital ratio, which compares high-quality capital to risk-weighted assets, would fall from an actual 11.1 percent in the third quarter of 2012 to 7.7 percent in the fourth quarter of 2014 in the hypothetical stress scenario.

The Federal Reserve's stress scenario estimates are the outcome of deliberately stringent and conservative assessments under hypothetical, adverse economic conditions and the results are not forecasts or expected outcomes.

Despite the large hypothetical declines, the aggregate post-stress capital ratio exceeds the actual aggregate tier 1 common ratio for the 18 firms of approximately 5.6 percent at the end of 2008, prior to the government stress tests conducted in the midst of the financial crisis in early 2009. This is the third round of stress tests led by the Federal Reserve since the tests in 2009, but is the first year that the Federal Reserve has conducted stress tests pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Federal Reserve's implementing regulations.

"The stress tests are a tool to gauge the resiliency of the financial sector," Federal Reserve Governor Daniel K. Tarullo said. "Significant increases in both the quality and quantity of bank capital during the past four years help ensure that banks can continue to lend to consumers and businesses, even in times of economic difficulty."

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at http://www.frbsf.org/banking/letters.

For additional information, please contact:

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Attachment: Stress Test Methodology and Results (1.97 MB PDF)