Dodd-Frank Act Stress Test (DFAST) Results June 2024

June 27, 2024

All 31 banks pass the latest stress tests in an environment where the Basel III Endgame capital requirements are getting challenged

The Federal Reserve Board (FRB) released the results of the latest Dodd-Frank Stress Test (DFAST) on June 26, 2024.[1] All 31 banks subject to the stress test stayed above their minimum capital requirements in the stress scenario, even with aggregated projection of $685 billion in losses under the hypothetical severe downturn where the banks had more than twice the amount of minimum capital required.

While the 31 banks passed this year's stress test, it's worth noting hypothetical losses increased with (i) rising credit card delinquency rates, (ii) riskier corporate credit portfolios and (iii) higher expenses coupled with lower fees.

2024 stress test scenarios

This year, stress tests evaluated the capital planning processes and adequacies of 31 large banks with total consolidated assets of more than $100 billion. The stress scenario for this year includes severe global recession, including prolonged declines in both residential and commercial real estate prices, which spill over into the corporate sector and affect investment sentiment. Key components of the severely adverse stress scenario are noted below:

- US unemployment rate rising to a peak of 10%
- Housing prices declining by 36%
- Commercial real estate prices declining by 40%
- Corporate bond spreads widening
- Collapse in asset prices
- Equity prices fall by 55%
- Real GDP declining by 8.5% from Q4 2023 before recovering
- Consumer price index (CPI) inflation falls from 2.8 percent at the end of 2023 to 1.3 percent in the third quarter of 2024 and then gradually increases to 1.6 percent by the end of the scenario

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Results at a glance

- All 31 banks subject to the stress tests maintained capital levels well above the minimums under the FRB's stress scenario
- The nearly $685 billion in total projected losses includes $175 billion in credit card losses, $142 billion in losses from commercial and industrial loans, and nearly $80 billion in losses from commercial real estate
- No significant changes to the key variables in 2024
- The results of the recently added exploratory market shock showed that all 8 G-SIBs are resilient despite a sudden surge in the cost of deposits combined with a recession
- Banks are expected to share formal announcements on their capital actions post market close on Friday (June 28th)

Key highlights from the June 2024 stress test results

Aggregate loan losses were higher relative to last year's scenario. Most of the hypothetical $685 billion in losses came from $571 billion in loan losses and $91 billion in trading and counterparty losses.

The greater decline in this year's aggregate capital ratio owes significantly to rise in credit card balances and delinquencies, riskier corporate credit portfolios, lower non-interest income, and higher expenses.

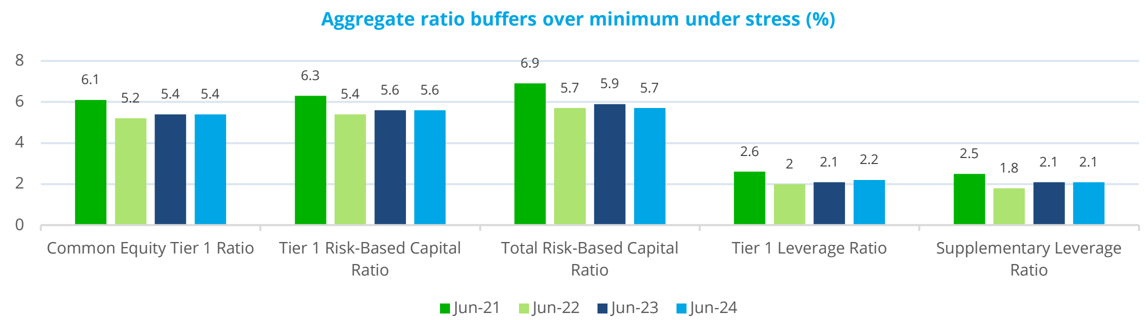
Overall, banks continued to show resilience, withstanding the severely adverse scenario. Overall, the banks maintained a significant cushion against losses showing:

- A projected decline in aggregate common equity tier 1 (CET1) ratio by 2.8 percentage points to a minimum of 9.9%, 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 2.6% to a minimum of 13.7%, which is comfortably above the minimum 8% required, suggesting banks are well capitalized

Key ratios at an aggregated level

The June 2024 stress test results indicate that the banks, in aggregate, appeared adequately capitalized and able to absorb $685 billion in losses. All key capital ratios remained nearly same except Total Risk-Based Capital which declined somewhat compared to June 2023 results.

	Severely adverse scenario	Aggregate results and cushion over minimum (%)			
		Actual Q4 2023	Stress minimum	Minimum required	Cushion over minimum
Ratio	Common equity tier 1	12.7	9.9	4.5	5.4
	Tier 1 risk-based capital	14.3	11.6	6	5.6
	Total risk-based capital	16.3	13.7	8	5.7
	Tier 1 leverage	7.8	6.2	4	2.2
	Supplementary leverage	6.4	5.1	3	2.1



Although this year's stress tests results have shown that the US banking industry is strong, banks should continue to evaluate evolving economic conditions including regional commercial real estate exposure affected by lingering office vacancies, rising costs, a tight labor market, and inflationary risks. Given the possibility of interest rates being higher for longer, and shifting regulatory expectations, banks should be thoughtful with respect to overall capital management and capital action plans. The impact from deteriorating commercial real estate (CRE) portfolios hasn't changed since last year and will likely continue to be challenging for the banks.

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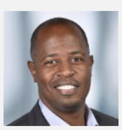

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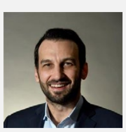

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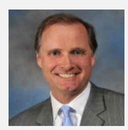

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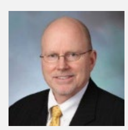

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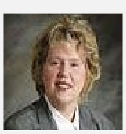

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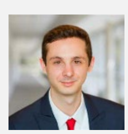

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Endnotes

1 FRB, “Federal Reserve Board annual bank stress test showed that while large banks would endure greater losses than last year's test, they are well positioned to weather a severe recession and stay above minimum capital requirements” press release, June 26, 2024.

2 Board of Governors of the Federal Reserve System (FRB), 2024 Federal Reserve Stress Test Results, June 2024.

3 FRB, “2024 Stress Test Scenarios,” Dodd-Frank Act Stress Test Publications, February 2024.

4 FRB, “Federal Reserve Board releases hypothetical scenarios for its 2024 bank stress tests,” press release, February 15, 2024.