

Large US Banks in Solid Shape

DFAST & CCAR Results Confirm

July 1, 2019

The 2019 DFAST and CCAR analyses by US bank regulators have demonstrated, once again, the financial strength of large US banks. The Federal Reserve Vice Chair for Supervision stated, “The stress tests have confirmed that the largest banks are both well capitalized and place a high priority on strong capital planning processes.” According to the Fed, large banks have more than doubled their capital levels since the financial crisis.

The Dodd-Frank Act Stress Test (DFAST) is a pair of regulatory-driven quantitative financial tests (Adverse and Severely Adverse) created in the aftermath of the Financial Crisis which puts large US banks through a series of challenging scenarios such as higher unemployment, market shocks, lower earnings and reduced loan quality. The goal of the stress tests is to determine whether a bank has adequate capital to withstand such stresses.

The Comprehensive Capital Analysis & Review (CCAR) utilizes the DFAST results, as well as the banks’ capital plans such as stock buybacks and dividends, plus a qualitative assessment of the banks’ capital planning, risk management, internal controls and governance, to highlight areas for improvement and to approve appropriate buybacks and dividends.

This year’s tests covered 18 large (\$250+ billion in assets) US banks, and foreign banks with US-based subsidiaries. All 18 banks passed the DFAST. In addition, the Fed did not object to any of the 18 banks’ capital plans. Credit Suisse’s US subsidiary received conditional approval, though the bank must address various assumptions it uses to project trading losses. Deutsche Bank’s US subsidiary passed the qualitative assessment – a change from past years. Minimum required Common Equity Tier 1 (CET1) is 4.5%, and 3% for the supplementary leverage ratio. The lowest CET1 under the severely adverse stress scenario was 4.6%, and 3.2% for leverage. For the adverse scenario, the respective figures were 7.3% and 4.1%.

These DFAST/CCAR results are positive news for preferred stock and AT1 investors. Because these securities are at their most vulnerable when banks are under stress and in danger of breaching their capital minimums, the stress tests’ conclusions that US banks have ample capital and other resources to handle severe stresses supports the likelihood of uninterrupted coupon payments.

Spectrum continues to believe that US banks exhibit robust overall strength and creditworthiness.

John J. Kriz, Senior Vice President
Joe Urciuoli, Executive Director