

Press Release



U.S. Banks Sufficiently Capitalized Even Against Worst-Case Coronavirus Scenarios

ALLISON EDWARDS | JUNE 26, 2020

The Federal Reserve (the Fed) released the results of its annual bank stress tests yesterday. AAF's Director of Financial Services Policy Thomas Wade assesses both the results, given the current economic crisis, and the Fed's ensuing decision to prevent buybacks and cap dividends. Despite finding that banks have sufficient capital during the downturn, and recent actions to loosen capital restrictions over the last few months to encourage lending, the Fed is nevertheless restricting dividend payments and stock buybacks — a counterintuitive move, Wade contends.

An excerpt:

Banks remain not only strong but an invaluable source of strength to the economy. That the Fed is preventing banks from making buybacks and capping dividends is a reflection of economic uncertainty, not a lack of safety at the banks.

It remains slightly troubling, however, that banks should be at the very center of Congress's legislative efforts to provide emergency relief to businesses and yet have their ability to provide a return to their shareholders restricted. Private banking is not an arm of government. If the Fed is concerned about the safety of banks, penalizing them for having lower capital reserves while doing everything possible to reduce capital buffers to encourage lending seems counterintuitive; likewise, if Congress requires banks to keep the economy afloat, it makes little sense to discourage private industry and investment.

[Read the analysis.](#)