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FDIC To Require Stress Tests For Institutions With Over $10 Billion in Assets

The Federal Deposit Insurance Corporation (FDIC) announced on February 3 that it is seeking comment on a Notice of Proposed Rulemaking (NPR) to implement requirements of Section 165 (i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under this section of the Act, FDIC-insured state nonmember banks and FDIC-insured state-chartered savings associations with total consolidated assets of more than $10 billion are required to conduct annual stress tests under regulations prescribed by the FDIC. This NPR, which proposes regulations for state nonmember banks and state savings associations, is substantively similar to regulations already proposed by the Federal Reserve and the Office of the Comptroller of the Currency.

The proposed rule:

- Defines "stress test" as a process to assess the potential impact of economic and financial conditions on the earnings, losses, and capital of a covered bank over a nine- quarter planning horizon, taking into account the current condition of the bank and its risks, exposures, strategies, and activities.

- Requires covered state nonmember banks to conduct annual capital adequacy stress tests using financial data as of September 30, based on three scenarios to be identified annually by the FDIC.

- Requires covered banks to report the results of the stress tests to the FDIC by the January 5 following the September 30 as-of date, in a form to be developed in coordination with the other banking agencies that would be the subject of a future request for comment.

- Requires covered banks to publish a summary of the results within 90 days after the report to the FDIC.

- Requires the public summary to include projections of losses, pre-provision net revenue, loss reserves, net income, and pro forma capital levels and ratios over the planning horizon under each scenario, and a general description of the risks covered and stress testing methodologies used.

- States that the FDIC intends to coordinate with the other primary federal financial regulatory agencies on the development of the scenarios.
- Seeks comment on the feasibility of the proposed timelines and the challenges institutions may experience.

To view the proposed rule, click here.

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