ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
HEALTH, EDUCATION, LABOR, AND PENSIONS
ARMED SERVICES
SPECIAL COMMITTEE ON AGING

United States Senate

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www.warren.senate.gov

October 07, 2020

Brian Moynihan
Chairman of the Board and Chief Executive Officer
Bank of America
100 North Tryon Street
Charlotte, NC 28255

Dear Mr. Moynihan:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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[2] Board of Governors of the Federal Reserve System, "Stress Testing after Five Years," Governor Daniel K. Tarullo, June 25, 2014, https://www.federalreserve.gov/newsevents/speech/tarullo20140625a.htm.
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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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[6] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases results of stress tests for 2020 and additional sensitivity analyses conducted in light of the coronavirus event," press release, June 25, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625c.

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taken unnecessary and counterproductive actions, such as relaxing the Supplementary Leverage Ratio (SLR), which weakened existing capital requirements for the largest financial institutions.[9]

As a bank holding company with greater than $250 billion in assets,[10] your institution was one of the 14 largest of the 33 firms subject to the Fed's stress tests for 2020, and I am requesting that you provide transparency into the health of your institution that the Fed has not yet provided.

This information is particularly important because while the Fed did not release key information about individual firms' initial sensitivity analysis results, Fed officials noted their serious concerns about particular firms, stating that "Supervisors remain focused on certain firms that are particularly sensitive to the current economic outlook, whose outlooks are more optimistic than appropriate given current conditions, whose credit cost forecasts have not considered a range of possible outcomes, or whose planning has not been thoughtful."[11]

This is an alarming statement on its own, but the context in which it was made—in the middle of an unprecedented global pandemic and recession with an uncertain economic trajectory—makes it an indictment of the preparedness and seriousness with which certain banks are meeting this moment. Essentially, the Fed is acknowledging that, as bank profits decline and banks accumulate record levels of reserves for expected loan losses,[12] certain banking organizations are not prepared to safely manage the economic fallout in the coming months. In previous years, the Fed was able to object to a firm's plan "on qualitative grounds if it finds that the firm's capital planning processes are not sufficiently reliable," but in 2019, as part of a series of deregulatory efforts, removed that important corrective tool from the stress tests.[13][14]

Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

[9] Letter from Senators Warren and Brown to Federal Financial Regulators, June 19, 2020, https://www.warren.senate.gov/imo/media/doc/2020.06.19%20Letter%20to%20Financial%20Regulators%20on%20Bank%20Capital.docx.pdf.

[10] Federal Financial Institutions Examination Council, "Large Holding Companies," March 31, 2020, https://www.ffiec.gov/npw/Institution/TopHoldings.

[11] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.

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[14] Reuters, "Federal Reserve scraps 'qualitative' test for U.S. banks in 2019 stress tests," Michelle Price, Pete Schroeder, March 6, 2019, https://www.reuters.com/article/us-usa-fed-stresstests/federal-reserve-scraps-qualitative-test-for-u-s-banks-in-2019-stress-tests-idUSKCN1QN2PX.

requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

1. Were the results of the Fed's COVID-19 first round of sensitivity analyses provided to your institution? If so, please provide us with copies of all results.

2. Have you received any communications from the Fed regarding the findings of the current round of sensitivity analyses? If so, please provide us with copies of all results.

3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
    a. Common equity tier 1 capital ratio
    b. Tier 1 capital ratio
    c. Total capital ratio
    d. Tier 1 leverage ratio
    e. Supplementary leverage ratio

6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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[16] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

7. What assumptions does your model make regarding the progression of the COVID-19 pandemic?

8. The stress tests break down projected loan losses by the following categories. Please disclose these levels under 1) each of the three scenarios of the Fed's Sensitivity Analyses and 2) the scenarios under which you have modeled.

    a. First-lien mortgages, domestic
    b. Junior liens and HELOCS, domestic
    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
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October 07, 2020

Thomas P. Gibbons
Chief Executive Officer
The Bank of New York Mellon Corporation
240 Greenwich Street
New York, NY 10286

Dear Mr. Gibbons:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

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However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

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3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
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6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

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October 07, 2020

Richard Fairbank
Chairman and Chief Executive Officer
Capital One Financial Corp
1680 Capital One Drive
McLean, VA 22102

Dear Mr. Fairbank:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

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While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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[10] Federal Financial Institutions Examination Council, "Large Holding Companies," March 31, 2020, https://www.ffiec.gov/npw/Institution/TopHoldings.

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[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.

[13] Board of Governors of the Federal Reserve System, "Next Steps in the Evolution of Stress Testing," Governor Daniel K. Tarullo, September 26, 2016, https://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm

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requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

1. Were the results of the Fed's COVID-19 first round of sensitivity analyses provided to your institution? If so, please provide us with copies of all results.

2. Have you received any communications from the Fed regarding the findings of the current round of sensitivity analyses? If so, please provide us with copies of all results.

3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
    a. Common equity tier 1 capital ratio
    b. Tier 1 capital ratio
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6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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8. The stress tests break down projected loan losses by the following categories. Please disclose these levels under 1) each of the three scenarios of the Fed's Sensitivity Analyses and 2) the scenarios under which you have modeled.

    a. First-lien mortgages, domestic
    b. Junior liens and HELOCS, domestic
    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
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HEALTH, EDUCATION, LABOR, AND PENSIONS
ARMED SERVICES
SPECIAL COMMITTEE ON AGING

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www.warren.senate.gov

October 07, 2020

Michael Corbat
Chief Executive Officer
Citigroup
338 Greenwich Street
New York, NY 10013

Dear Mr. Corbat:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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Elizabeth Warren

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United States Senator

ELIZABETH WARREN
MASSACHUSETTS

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www.warren.senate.gov

October 07, 2020

David Solomon
Chairman of the Board and Chief Executive Officer
Goldman Sachs
200 West Street
New York, NY 10282

Dear Mr. Solomon:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

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While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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[15] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.
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7. What assumptions does your model make regarding the progression of the COVID-19 pandemic?

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    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
HEALTH, EDUCATION, LABOR, AND PENSIONS
ARMED SERVICES
SPECIAL COMMITTEE ON AGING

United States Senate

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www.warren.senate.gov

October 07, 2020

Michael Roberts
President and Chief Executive Officer
HSBC North America Holdings
452 Fifth Avenue
New York, NY 10005

Dear Mr. Roberts:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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[2] Board of Governors of the Federal Reserve System, "Stress Testing after Five Years," Governor Daniel K. Tarullo, June 25, 2014, https://www.federalreserve.gov/newsevents/speech/tarullo20140625a.htm.
[3] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases hypothetical scenarios for its 2020 stress test exercises," press release, February 6, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200206a.htm.

comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

[4] Bureau of Labor Statistics, U.S. Department of Labor, "Unemployment rate rises to record high 14.7 percent in April 2020," May 13, 2020, https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point7-percent-in-april-2020.htm?view_full.

[5] Bureau of Economic Analysis, "Gross Domestic Product, 2nd Quarter 2020 (Advance Estimate) and Annual Update," July 30, 2020, https://www.bea.gov/news/2020/gross-domestic-product-2nd-quarter-2020-advance-estimate-and-annual update#:~:text=Real%20gross%20domestic%20product%20(GDP,the%20Bureau%20of%20Economic%20Analysis.&text=The%20%22second%22%20estimate%20for%20the,released%20on%20August%2027%2C%202020.

[6] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases results of stress tests for 2020 and additional sensitivity analyses conducted in light of the coronavirus event," press release, June 25, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625c.

[7] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases hypothetical scenarios for second round of bank stress tests," press release, September 17, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200917a.htm.

[8] Board of Governors of the Federal Reserve System, "Federal Reserve Board announces it will extend for an additional quarter several measures to ensure that large banks maintain a high level of capital resilience," press release, September 30, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930b.htm.

taken unnecessary and counterproductive actions, such as relaxing the Supplementary Leverage Ratio (SLR), which weakened existing capital requirements for the largest financial institutions.[9]

As a bank holding company with greater than $250 billion in assets,[10] your institution was one of the 14 largest of the 33 firms subject to the Fed's stress tests for 2020, and I am requesting that you provide transparency into the health of your institution that the Fed has not yet provided.

This information is particularly important because while the Fed did not release key information about individual firms' initial sensitivity analysis results, Fed officials noted their serious concerns about particular firms, stating that "Supervisors remain focused on certain firms that are particularly sensitive to the current economic outlook, whose outlooks are more optimistic than appropriate given current conditions, whose credit cost forecasts have not considered a range of possible outcomes, or whose planning has not been thoughtful."[11]

This is an alarming statement on its own, but the context in which it was made—in the middle of an unprecedented global pandemic and recession with an uncertain economic trajectory—makes it an indictment of the preparedness and seriousness with which certain banks are meeting this moment. Essentially, the Fed is acknowledging that, as bank profits decline and banks accumulate record levels of reserves for expected loan losses,[12] certain banking organizations are not prepared to safely manage the economic fallout in the coming months. In previous years, the Fed was able to object to a firm's plan "on qualitative grounds if it finds that the firm's capital planning processes are not sufficiently reliable," but in 2019, as part of a series of deregulatory efforts, removed that important corrective tool from the stress tests.[13][14]

Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

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[9] Letter from Senators Warren and Brown to Federal Financial Regulators, June 19, 2020, https://www.warren.senate.gov/imo/media/doc/2020.06.19%20Letter%20to%20Financial%20Regulators%20on%20Bank%20Capital.docx.pdf.

[10] Federal Financial Institutions Examination Council, "Large Holding Companies," March 31, 2020, https://www.ffiec.gov/npw/Institution/TopHoldings.

[11] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.

[13] Board of Governors of the Federal Reserve System, "Next Steps in the Evolution of Stress Testing," Governor Daniel K. Tarullo, September 26, 2016, https://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm

[14] Reuters, "Federal Reserve scraps 'qualitative' test for U.S. banks in 2019 stress tests," Michelle Price, Pete Schroeder, March 6, 2019, https://www.reuters.com/article/us-usa-fed-stresstests/federal-reserve-scraps-qualitative-test-for-u-s-banks-in-2019-stress-tests-idUSKCN1QN2PX.

requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

1. Were the results of the Fed's COVID-19 first round of sensitivity analyses provided to your institution? If so, please provide us with copies of all results.

2. Have you received any communications from the Fed regarding the findings of the current round of sensitivity analyses? If so, please provide us with copies of all results.

3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
    a. Common equity tier 1 capital ratio
    b. Tier 1 capital ratio
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6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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7. What assumptions does your model make regarding the progression of the COVID-19 pandemic?

8. The stress tests break down projected loan losses by the following categories. Please disclose these levels under 1) each of the three scenarios of the Fed's Sensitivity Analyses and 2) the scenarios under which you have modeled.

    a. First-lien mortgages, domestic
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Sincerely,

Elizabeth Warren

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
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www.warren.senate.gov

October 07, 2020

Jamie Dimon
Chairman of the Board and Executive Officer
JP Morgan Chase & Co.
383 Madison Avenue
New York, NY 10179

Dear Mr. Dimon:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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[10] Federal Financial Institutions Examination Council, "Large Holding Companies," March 31, 2020, https://www.ffiec.gov/npw/Institution/TopHoldings.
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[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.
[13] Board of Governors of the Federal Reserve System, "Next Steps in the Evolution of Stress Testing," Governor Daniel K. Tarullo, September 26, 2016, https://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm
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The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

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4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

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Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
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HEALTH, EDUCATION, LABOR, AND PENSIONS
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SPECIAL COMMITTEE ON AGING

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www.warren.senate.gov

October 07, 2020

James Gorman
Chairman of the Board and Chief Executive Officer
Morgan Stanley & Co.
1585 Broadway Avenue
New York, NY 10036

Dear Mr. Gorman:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

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[13] Board of Governors of the Federal Reserve System, "Next Steps in the Evolution of Stress Testing," Governor Daniel K. Tarullo, September 26, 2016, https://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm
[14] Reuters, "Federal Reserve scraps 'qualitative' test for U.S. banks in 2019 stress tests," Michelle Price, Pete Schroeder, March 6, 2019, https://www.reuters.com/article/us-usa-fed-stresstests/federal-reserve-scraps-qualitative-test-for-u-s-banks-in-2019-stress-tests-idUSKCN1QN2PX.

requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

1. Were the results of the Fed's COVID-19 first round of sensitivity analyses provided to your institution? If so, please provide us with copies of all results.

2. Have you received any communications from the Fed regarding the findings of the current round of sensitivity analyses? If so, please provide us with copies of all results.

3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
    a. Common equity tier 1 capital ratio
    b. Tier 1 capital ratio
    c. Total capital ratio
    d. Tier 1 leverage ratio
    e. Supplementary leverage ratio

6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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7. What assumptions does your model make regarding the progression of the COVID-19 pandemic?

8. The stress tests break down projected loan losses by the following categories. Please disclose these levels under 1) each of the three scenarios of the Fed's Sensitivity Analyses and 2) the scenarios under which you have modeled.

    a. First-lien mortgages, domestic
    b. Junior liens and HELOCS, domestic
    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
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HEALTH, EDUCATION, LABOR, AND PENSIONS
ARMED SERVICES
SPECIAL COMMITTEE ON AGING

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www.warren.senate.gov

October 07, 2020

William Demchak
Chairman, President and Chief Executive Officer
The PNC Financial Services Group, Inc.
300 Fifth Avenue
Pittsburgh, Pennsylvania 15222

Dear Mr. Demchak:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

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4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

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Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

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www.warren.senate.gov

October 07, 2020

Ronald O'Hanley
President and Chief Executive Officer
State Street Corporation
One Lincoln Street
Boston, MA 02111

Dear Mr. O'Hanley:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

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[14] Reuters, "Federal Reserve scraps 'qualitative' test for U.S. banks in 2019 stress tests," Michelle Price, Pete Schroeder, March 6, 2019, https://www.reuters.com/article/us-usa-fed-stresstests/federal-reserve-scraps-qualitative-test-for-u-s-banks-in-2019-stress-tests-idUSKCN1QN2PX.

requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

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4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

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6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
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HEALTH, EDUCATION, LABOR, AND PENSIONS
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SPECIAL COMMITTEE ON AGING

United States Senate

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www.warren.senate.gov

October 07, 2020

Bharat Masrani
President and Chief Executive Officer
TD Group US Holdings
1701 Marlton Pike E
Cherry Hill, NJ 08034

Dear Mr. Masrani:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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This is an alarming statement on its own, but the context in which it was made—in the middle of an unprecedented global pandemic and recession with an uncertain economic trajectory—makes it an indictment of the preparedness and seriousness with which certain banks are meeting this moment. Essentially, the Fed is acknowledging that, as bank profits decline and banks accumulate record levels of reserves for expected loan losses,[12] certain banking organizations are not prepared to safely manage the economic fallout in the coming months. In previous years, the Fed was able to object to a firm's plan "on qualitative grounds if it finds that the firm's capital planning processes are not sufficiently reliable," but in 2019, as part of a series of deregulatory efforts, removed that important corrective tool from the stress tests.[13][14]

Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

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[9] Letter from Senators Warren and Brown to Federal Financial Regulators, June 19, 2020, https://www.warren.senate.gov/imo/media/doc/2020.06.19%20Letter%20to%20Financial%20Regulators%20on%20Bank%20Capital.docx.pdf.
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[11] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.
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Sincerely,

Elizabeth Warren
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ELIZABETH WARREN
MASSACHUSETTS

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www.warren.senate.gov

October 07, 2020

Kelly King
President and Chief Executive Officer
Truist Financial Corporation
214 North Tyson Street
Charlotte, NC 28202

Dear Mr. King:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

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Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

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www.warren.senate.gov

October 07, 2020

Andy Cecere
President and Chief Executive Officer
U.S. Bancorp
800 Nicollet Mall
Minneapolis, MN 55402

Dear Mr. Cecere:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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[2] Board of Governors of the Federal Reserve System, "Stress Testing after Five Years," Governor Daniel K. Tarullo, June 25, 2014, https://www.federalreserve.gov/newsevents/speech/tarullo20140625a.htm.
[3] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases hypothetical scenarios for its 2020 stress test exercises," press release, February 6, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200206a.htm.

comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

[4] Bureau of Labor Statistics, U.S. Department of Labor, "Unemployment rate rises to record high 14.7 percent in April 2020," May 13, 2020, https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point7-percent-in-april-2020.htm?view_full.

[5] Bureau of Economic Analysis, "Gross Domestic Product, 2nd Quarter 2020 (Advance Estimate) and Annual Update," July 30, 2020, https://www.bea.gov/news/2020/gross-domestic-product-2nd-quarter-2020-advance-estimate-and-annual update#:~:text=Real%20gross%20domestic%20product%20(GDP,the%20Bureau%20of%20Economic%20Analysis.&text=The%20%22second%22%20estimate%20for%20the,released%20on%20August%2027%2C%202020.

[6] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases results of stress tests for 2020 and additional sensitivity analyses conducted in light of the coronavirus event," press release, June 25, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625c.

[7] Board of Governors of the Federal Reserve System, "Federal Reserve Board releases hypothetical scenarios for second round of bank stress tests," press release, September 17, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200917a.htm.

[8] Board of Governors of the Federal Reserve System, "Federal Reserve Board announces it will extend for an additional quarter several measures to ensure that large banks maintain a high level of capital resilience," press release, September 30, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930b.htm.

taken unnecessary and counterproductive actions, such as relaxing the Supplementary Leverage Ratio (SLR), which weakened existing capital requirements for the largest financial institutions.[9]

As a bank holding company with greater than $250 billion in assets,[10] your institution was one of the 14 largest of the 33 firms subject to the Fed's stress tests for 2020, and I am requesting that you provide transparency into the health of your institution that the Fed has not yet provided.

This information is particularly important because while the Fed did not release key information about individual firms' initial sensitivity analysis results, Fed officials noted their serious concerns about particular firms, stating that "Supervisors remain focused on certain firms that are particularly sensitive to the current economic outlook, whose outlooks are more optimistic than appropriate given current conditions, whose credit cost forecasts have not considered a range of possible outcomes, or whose planning has not been thoughtful."[11]

This is an alarming statement on its own, but the context in which it was made—in the middle of an unprecedented global pandemic and recession with an uncertain economic trajectory—makes it an indictment of the preparedness and seriousness with which certain banks are meeting this moment. Essentially, the Fed is acknowledging that, as bank profits decline and banks accumulate record levels of reserves for expected loan losses,[12] certain banking organizations are not prepared to safely manage the economic fallout in the coming months. In previous years, the Fed was able to object to a firm's plan "on qualitative grounds if it finds that the firm's capital planning processes are not sufficiently reliable," but in 2019, as part of a series of deregulatory efforts, removed that important corrective tool from the stress tests.[13][14]

Since these data and estimates were published, the economic picture looks even more grim, as Congressional inaction resulted in the elimination of critical support for households and businesses last month, and President Trump's recent withdrawal from negotiations has reinforced the idea that there may be no additional stimulus at all. This failure increases the recession-related risks for the banking system because it means that business and household borrowers are more likely to default on their loans and obligations. Indeed, the Fed's sensitivity analyses, incomplete as they were, showed one in four firms breaching their minimum capital

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[9] Letter from Senators Warren and Brown to Federal Financial Regulators, June 19, 2020, https://www.warren.senate.gov/imo/media/doc/2020.06.19%20Letter%20to%20Financial%20Regulators%20on%20Bank%20Capital.docx.pdf.
[10] Federal Financial Institutions Examination Council, "Large Holding Companies," March 31, 2020, https://www.ffiec.gov/npw/Institution/TopHoldings.
[11] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.
[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.
[13] Board of Governors of the Federal Reserve System, "Next Steps in the Evolution of Stress Testing," Governor Daniel K. Tarullo, September 26, 2016, https://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm
[14] Reuters, "Federal Reserve scraps 'qualitative' test for U.S. banks in 2019 stress tests," Michelle Price, Pete Schroeder, March 6, 2019, https://www.reuters.com/article/us-usa-fed-stresstests/federal-reserve-scraps-qualitative-test-for-u-s-banks-in-2019-stress-tests-idUSKCN1QN2PX.

requirements in the event of a severe double-dip recession,[15] a scenario that becomes more likely every day that Congress fails to act. The analyses even noted that firms "capital forecasts tend to be strongly dependent on the assumption of whether there will be additional rounds of economic stimulus."[16]

The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

1. Were the results of the Fed's COVID-19 first round of sensitivity analyses provided to your institution? If so, please provide us with copies of all results.

2. Have you received any communications from the Fed regarding the findings of the current round of sensitivity analyses? If so, please provide us with copies of all results.

3. Have you received any communications from regulators regarding concerns about your institution's capital planning, including that it has not been "thoughtful"? If so, please disclose the nature of those communications, and your response.

4. What economic scenarios have you accounted for in your internal capital planning models since March 1, 2020? Please include the values of individual macroeconomic variables used in these scenarios, including, but not limited to: estimated unemployment rates and changes in real and nominal Gross Domestic Product, changes in real and nominal disposable income and CPI inflation rates.

5. For each of the scenarios identified in the previous question, please identify the impact on your bank's capital levels, including:
    a. Common equity tier 1 capital ratio
    b. Tier 1 capital ratio
    c. Total capital ratio
    d. Tier 1 leverage ratio
    e. Supplementary leverage ratio

6. Does your modeling assume additional fiscal support from Congress to households and small businesses? If so, please describe the impact of the failure of Congress to provide such support on the safety and soundness of your institution.

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[15] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.
[16] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

7. What assumptions does your model make regarding the progression of the COVID-19 pandemic?

8. The stress tests break down projected loan losses by the following categories. Please disclose these levels under 1) each of the three scenarios of the Fed's Sensitivity Analyses and 2) the scenarios under which you have modeled.

    a. First-lien mortgages, domestic
    b. Junior liens and HELOCS, domestic
    c. Commercial and industrial
    d. Commercial real estate, domestic
    e. Credit cards
    f. Other consumer (including student loans and automobile loans)
    g. Other loans (including international real estate loans)

Sincerely,

Elizabeth Warren
United States Senator

ELIZABETH WARREN
MASSACHUSETTS

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October 07, 2020

Mr. Charles W. Scharf
Chief Executive Officer and President
Wells Fargo & Company
420 Montgomery Street
San Francisco, CA 94104

Dear Mr. Scharf:

I write to inquire how you are assessing and mitigating the risks to your institution and to the financial system resulting from the ongoing recession induced by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, because the Federal Reserve Board of Governors (Fed) has again failed to take commonsense measures to protect banks' balance sheets and ensure the resiliency of our financial system, and has provided only limited transparency about the methods and findings of its first round of annual stress tests, I am writing to request that you provide additional information about your institution's preparedness for the continued economic fallout from COVID-19.

The financial crisis of 2008 demonstrated that many financial institutions were not sufficiently prepared to handle large economic shocks.[1] As a result, ten years ago the Dodd-Frank Act was signed into law, requiring the Fed to conduct supervisory stress tests to ensure "large, complex financial institutions have sufficient capital to allow them to remain viable intermediaries even under highly stressful conditions."[2]

However, this year, the entire purpose of the stress tests was initially undermined by the Fed's failure to use them to address the economic effects of the COVID-19 pandemic. The economic scenarios used to test banks' balance sheets were announced in February 2020, prior to the declaration of a national health emergency. The scenario that was designed to model "severely adverse" economic conditions included the unemployment rate peaking at ten percent and quarterly Gross Domestic Product (GDP) declining by a maximum of 9.9 percent.[3] By

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comparison, the April 2020 unemployment rate was 14.7 percent,[4] and second-quarter GDP declined by 31.7 percent.[5] Instead of postponing the tests or figuring out a way to incorporate the impacts of COVID-19 into these scenarios, the Fed instead included incomplete and inadequate "sensitivity analyses" to account for the pandemic.[6] These analyses did not contain the transparency needed to provide the American people with confidence that our financial system will continue to function during this ongoing and unprecedented pandemic; among other problems, the Fed did not release key information related to the performance of individual institutions under these sensitivity analyses, including the impact on risk-weighted capital and leverage ratios.

Recognizing this error, the Fed recently announced that it would be conducting additional analyses, with variables and forecasts that more closely resemble the downside economic scenarios our country could face in the coming months.[7] These results will be released at the end of the year, and unlike the original stress tests and analyses, will be provided on a bank-level basis. This is a welcome step, but the Fed is making decisions today based on the information from the first round of stress tests, and families and businesses should not have to wait for up to three additional months for basic transparency about our banking system. In fact, the Fed's failure to take commonsense measures to preserve capital at large financial institutions has unfortunately warranted even greater attention to the health of the largest banks. In particular, on September 30, 2020, the Fed announced that it would allow banks to continue paying dividends to enrich their shareholders.[8]

While this announcement has been framed as a "measure[] to ensure that large banks maintain a high level of capital resilience," in reality, it is a continuation of a misguided policy that allows banks to continue to paying out dividends, allowing them to deplete capital buffers at a time when they should be preserving them to support lending to households and small businesses. Moreover, this announcement came in the context of the Fed and other regulators having already

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[11] Board of Governors of the Federal Reserve System, "Assessment of Bank Capital during the Recent Coronavirus Event," June 2020, https://www.federalreserve.gov/publications/files/2020-sensitivity-analysis-20200625.pdf.

[12] Reuters, "U.S. bank profits plunge 70% on coronavirus loss provisioning," Pete Schroeder, June 16, 2020, https://www.reuters.com/article/us-usa-fdic-results/u-s-bank-profits-plunge-70-on-coronavirus-loss-provisioning-idUSKBN23N2GT#:~:text=WASHINGTON%20(Reuters)%20%2D%20U.S.%20bank,data%20from%20a%20banking%20regulator.

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The safety and soundness of the banking sector cannot be taken for granted, and the American people deserve full transparency regarding the health of the financial system. When regulators and banks failed to take these risks seriously in the years leading up to 2008, families lost their homes, jobs, and livelihoods. Given that bank regulators are again failing to protect the financial system and the American people in the middle of this unprecedented crisis, I ask that you provide the following information no later than October 21, 2020.

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Sincerely,

Elizabeth Warren
United States Senator