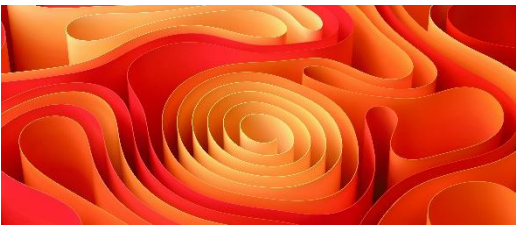
Pills
Regulatory/Supervisory Pills | N.112 July 2025



TOPICS:
Stress Test

SOURCE
Federal Reserve System

FED: 2025 Stress Test Results

- The **FED 2025 stress test results indicate that the 22 participating USA large banks possess sufficient capital to absorb more than $550 billion in losses** and continue lending under stressful conditions. Under the severely **adverse scenario**, the **aggregate Common Equity Tier 1** (CET1) capital ratio for these banks is projected to fall from an actual 13.4 percent in Q4 2024 to a minimum of 11.6 percent, before recovering to 12.7 percent by Q1 2027. All aggregate and individual bank **post-stress CET1 capital ratios remained above regulatory minimums**.
- The **smaller aggregate decline in the CET1 capital ratio this year**, compared to previous years, **is attributed to several factors**: 1) A **less severe hypothetical scenario** for 2025, featuring a smaller increase in unemployment and less drastic declines in real GDP, house prices, and commercial real estate (CRE) prices compared to the 2024 scenario; 2) A **change in the treatment of private equity losses**, which are now projected under the macroeconomic scenario instead of the global market shock component; 3)**Significantly higher projected pre-provision net revenue (PPNR)** under stress, driven by strong recent bank profitability; 4) The impact of **atypical trading positions** at some banks, measured in October 2024, which led to a substantial improvement in trading losses for those institution.
- **An exploratory analysis focused on credit and liquidity stress in the nonbank financial institution (NBFI)** sector was also conducted. Results indicate that, even under heightened stress in this area, the banking system remains well-capitalized, with an aggregate CET1 capital ratio falling only to 11.8%.
- **The report also outlines regulatory developments**, including a proposed rule to average stress test results over two years, aiming to smooth volatility in capital requirements. Additionally, the Board plans to enhance transparency by seeking public comment on its models and scenario design.