- Capital ratios grew across banking organizations following the 2007-08 Financial Crisis as reforms greatly strengthened capital requirements (Chart 1). In the early part of the recovery when profitability was improving, banks were retaining earnings to build capital. As the economic expansion continued over the last decade, capital ratios began flattening and in recent years have started to gradually decline for the largest banks, predominantly due to increased shareholder distributions. From 2017 to 2019 the U.S. Global Systemically Important Banks (GSIBs) distributed, on average, more than 100 percent of their earnings to shareholders.
- In the first half of 2020, as the impact of the COVID-19 pandemic drove unemployment rates to record highs and created widespread economic instability, the Federal Reserve took numerous emergency actions to support continued market functioning. As a result, bank balance sheets grew significantly placing pressure on capital ratios. This led federal regulatory agencies to relax certain capital requirements to promote continued financial market intermediation. One such measure was to temporarily exclude U.S. Treasury securities and deposits held at Federal Reserve Banks ("reserves") from the leverage exposure measure (the denominator) of the Supplementary Leverage Ratio (SLR).[1]
- The Federal Reserve's response to the COVID-19 pandemic resulted in an $885 billion aggregate increase in U.S. Treasury securities and reserves across the U.S. GSIBs at December 31, 2020 (using a 2017-2019 average starting point). The SLR exclusion of all U.S. Treasury securities and reserves collectively decreased leverage exposure by $2.4 trillion (18 percent) for U.S. GSIBs and $259 billion (12 percent) for other large banking organizations (LBO) required to report the SLR (Table 1, Column E). All else constant, the GSIBs' weighted average SLR without the exclusion would have been 110 basis points (bps) lower at 6.15 percent as of December 31, 2020 (Table 1, Column A). If the rule had instead excluded the marginal increase in U.S. Treasuries and reserves that resulted from the pandemic ($885 billion), GSIBs' weighted average SLR would have been 44 bps lower at 6.81 percent at December 31, 2020 (Table 1, Column B). If only reserves were excluded, GSIBs' weighted average SLR would have been 54 bps lower at 6.71 percent (Table 1, Column C).
- While balance sheets significantly expanded across all bank portfolio groups, the way in which the funds were deployed varied across groups (Chart 2). GSIBs and LBOs increased their U.S. Treasury security holdings, on average, by 39 percent and reserves by 131 percent, but loan growth was muted (0.5 percent). Community and regional banking organizations (CBOs and RBOs, respectively) were responsible for nearly all loan growth in 2020, increasing total loans by nearly $400 billion (14 percent), 57 percent of which were PPP loans.
- The Federal Reserve took action to limit shareholder distributions to conserve capital at the largest banks (assets over $100 billion) in light of the pandemic-induced downturn and relaxed capital requirements.[2] However, banking organizations within all size groups continued to distribute a significant portion of their income in the form of dividends in 2020 despite the protracted downturn and prevailing economic uncertainty.[3] As of December 31, 2020, dividend payout ratios were 40 percent, 43 percent, 60 percent, and 47 percent at GSIBs, LBOs, RBOs and CBOs, respectively (Chart 3). If the GSIBs had instead retained these dividends, their weighted average SLR would have been 24 bps higher at 7.49 percent (Table 1, Column D). The Federal Reserve is lifting capital distribution restrictions on June 30, 2021 subject to passage of this year's stress test, the results of which will be released by July 1.

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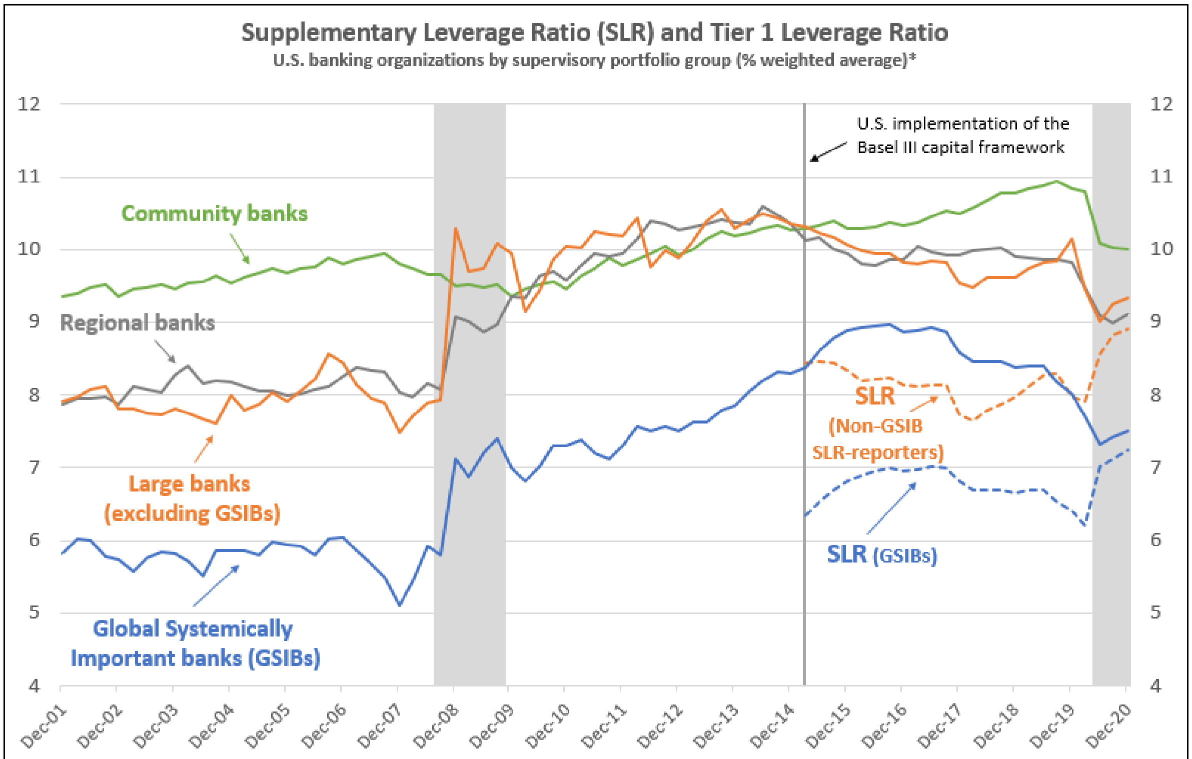
[1] See Board of Governors' April 14, 2020 Interim Final Rule available here: https://www.govinfo.gov/content/pkg/FR-2020-04-14/pdf/2020-07345.pdf. While the temporary exclusion expired on March 31, 2021, the Federal Reserve Board indicated in a March 19, 2021 Press Release that the Board plans to put forth a notice for comment in the near term on potential longer term modifications to the SLR framework (see: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm).

[2] See https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200930b.htm.

[3] The U.S. GSIBs declared $33 billion in cash dividends in 2020 and repurchased approximately $25 billion in common stock in the first quarter of 2020 before the Board announced the suspension of repurchases on June 25, 2020 (see: https://www.federalreserve.gov/newsevents/pressreleases/quarles-statement-20200625c.htm).

Chart 1: Historical leverage ratio trends by bank portfolio group



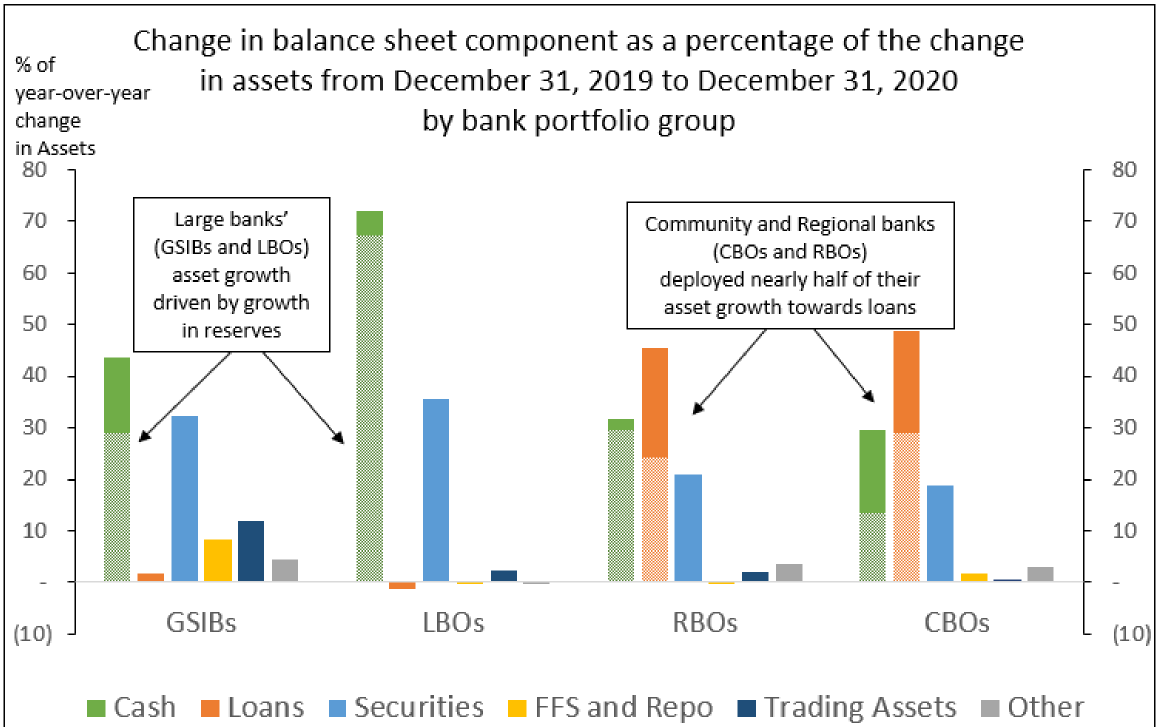
Source: Federal Reserve Y-9C Reports, FFIEC Call Reports
*Tier 1 capital as a percent of total leverage exposure (for SLR) and as a percent of average total assets (for Tier1 Leverage ratio). SLR reported only by banking organizations that generally have assets greater than $250 billion or on-balance sheet foreign exposures above $10 billion. Portfolio groups are established by the federal banking agencies and reflect the group banking organizations were in as of 4/15/2021.

Table 1: SLR exclusion analysis as of December 31, 2020

	SLR (as reported) and Changes from prior periods			SLR Hypothetical Scenario Adjustments								Leverage Exposure Exclusion Amount ($Billions)	
	SLR (as reported 4Q20 with exclusion)	*Change from 2Q20 (bps)*	*Change from 4Q219 (bps)*	SLR Adjusted (adds back FFIEC 101 exclusion adjustment)	*SLR Diff (bps)*	SLR Adjusted (reducing only by amount of COVID-19-related increase of Treasuries/ Reserves)*	*SLR Diff (bps)*	SLR Adjusted (excludes reserves only)	*SLR Diff (bps)*	SLR Adjusted (without dividends as reported)	*SLR Diff (bps)*	4Q20	2Q20
				(Column A)		(Column B)		(Column C)		(Column D)		(Column E)	
BANK OF AMER CORP	7.18	*13*	*78*	6.22	*96*	6.59	*59*	6.56	*62*	7.41	*(23)*	429	282
BANK OF NY MELLON CORP	8.63	*40*	*256*	5.54	*309*	7.32	*131*	6.88	*175*	9.00	*(37)*	170	144
CITIGROUP	7.01	*36*	*80*	5.92	*109*	6.57	*44*	6.61	*41*	7.19	*(18)*	440	393
GOLDMAN SACHS GROUP THE	6.96	*40*	*75*	6.07	*89*	6.65	*31*	6.69	*26*	7.09	*(13)*	195	200
JPMORGAN CHASE & CO	6.90	*7*	*64*	5.75	*115*	6.43	*47*	6.38	*52*	7.23	*(33)*	682	627
MORGAN STANLEY	7.39	*10*	*103*	6.59	*80*	7.32	*6*	7.28	*10*	7.58	*(19)*	144	153
STATE STREET CORP	8.12	*(16)*	*200*	5.58	*254*	7.17	*95*	6.40	*172*	8.47	*(35)*	95	118
WELLS FARGO & CO	8.05	*53*	*98*	7.10	*96*	7.78	*28*	7.32	*74*	8.31	*(26)*	265	219
U.S. GSIBs (% Weighted Avg, $ Total)	**7.25**			**6.15**		**6.81**		**6.71**		**7.49**		**2,421**	**2,136**
All SLR reporting firms (% Weighted Avg, $ Total)**	**7.48**			**6.39**				**6.91**		**7.48**		**2,680**	**2,375**

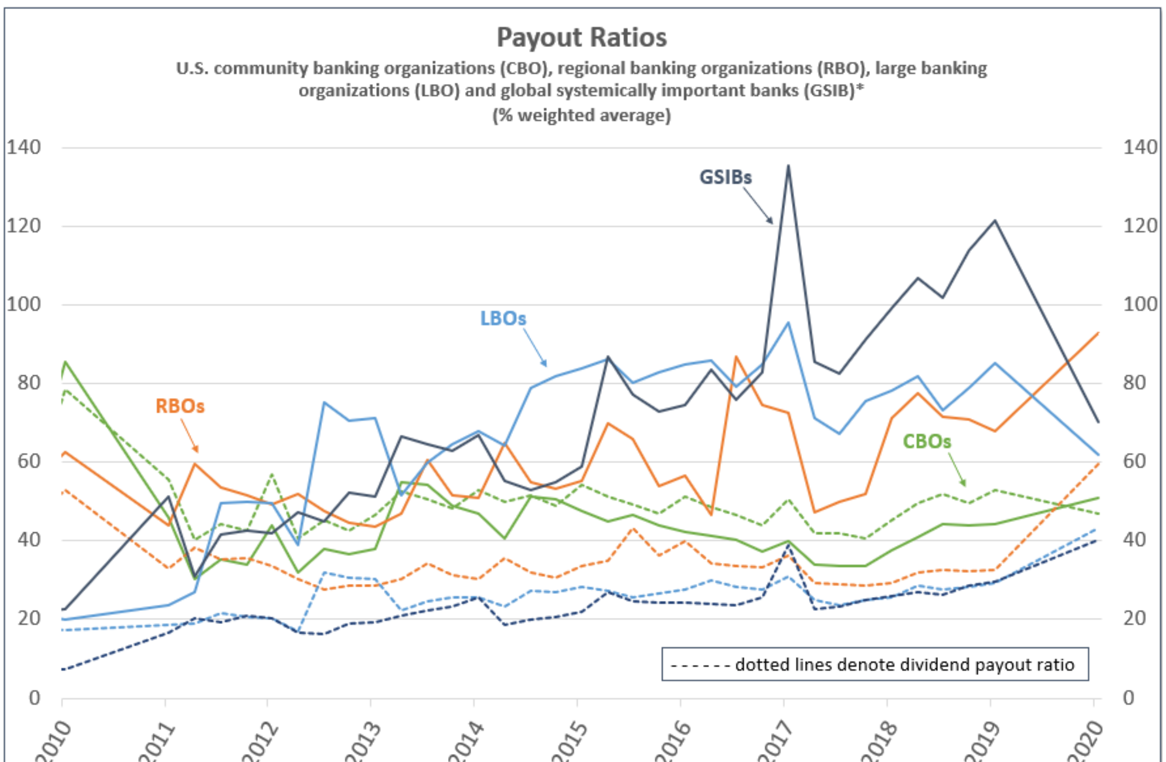
Source: Federal Reserve Y-9C Reports, FFIEC Call Reports (for reserves) and FFIEC 101 Reports.
*Using the average holdings of Treasuries and reserves for U.S. GSIBs from 2017 to 2019 as the starting point.
**Includes the U.S. GSIBs and the five non-GSIB Category III or higher firms required to report the SLR (Capital One, Northern Trust, PNC, Truist Financial Corp. and US Bancorp)

Chart 2: Asset utilization by bank portfolio group



Source: Y-9C for Global Systemically Important Banks (GSIBs), large banking organizations (LBOs) and regional banking organizations (RBOs) and Reports of Condition and Income (call reports) for community banking organizations (CBOs).
*GSIBs' and LBOs' reduction in other loan types exceeded that of their outstanding PPP loans at December 31, 2020 and therefore are not displayed. The shaded portion of Cash represents the increase in cash held as reserves. The shaded portion of Loans represents the increase in loans from PPP.

Chart 3: Payout ratios



Source: Federal Reserve Y-9C Reports, FFIEC Call Reports
*Portfolio groups are established by the federal banking agencies and reflect the group banking organizations were in as of 5/5/2021. Payout ratios are common dividends paid and common stock repurchases as a share of net income available to common shareholders defined as net income less preferred dividends paid. CBO total payout ratios are at the holding company level (and therefore exclude BHCs < $3 billion), whereas the dividend payout ratios reflect call report data for all community bank depository institutions.