FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Office of the Vice Chairman

July 31, 2017

The Honorable Michael Crapo
Chairman, U.S. Senate Committee on Banking, Housing & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member, U.S. Senate Committee on Banking, Housing & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown,

Although bank capital is a critical indicator of the health of the financial industry, it continues to be discussed in sound bites rather than substantive public debate. I write to provide an alternative perspective to recent industry statements claiming that large banks have too much capital and that their improving capital position has resulted in too little lending and a constrained economy.

First, the "Global Capital Index"[1], created by this office of the FDIC in 2013 and updated biannually, provides a direct comparison of bank capital positions, unaffected by bank size or differing accounting standards across the globe. This index has consistently shown that the largest, most complex and systemically important banks are less well capitalized than all other smaller banks in the U.S. This is clearly not the type of strength necessary to optimize the largest banks' support of the American economy, and it should not be satisfactory to taxpayers who continue to remain on stand-by to bail them out.

Second, despite rhetoric to the contrary, capital is not "idle" and it does not "inhibit" lending. In fact, capital is a fundamental and permanent source of funding that supports lending. Moreover, data provide a compelling argument that if, for example, the 10 largest U.S. Bank Holding Companies were to retain a greater share of their earnings earmarked for dividends and share buybacks in 2017 they would be able to increase loans by more than $1 trillion, which is greater than 5 percent of annual U.S. GDP. An attached chart titled "2017 Payout Analysis - 10 Largest Bank Holding Companies" uses publicly available numbers and shows the following:

- 10 BHCs in the U.S. will distribute, in aggregate, 99 percent of their net income on an annualized basis. Such massive distributions of capital provide no base for their future growth that would benefit our national economy (See columns 2 and 4).

[1] https://www.fdic.gov/news/news/speeches/spsep2016.html for further discussion and footnotes related to the Global Capital Index

- Four of the 10 BHCs will distribute more than 100 percent of their current year's earnings, which alone could support approximately $537 billion in new loans to Main Street (See columns 3 and 5).

- If share buybacks of $83 billion, representing 72 percent of total payouts for these 10 BHCs in 2017, were instead retained, they could, under current capital rules, increase small business loans by three quarters of a trillion dollars or mortgage loans by almost one and a half trillion dollars (See columns 7 and 8).

Finally, I recognize that dividends are an important factor for investors and they should be rewarded for the risks they take. But it is also true that funding business growth, assuring future economic success, and promoting capitalism depends upon the retention of earnings. Therefore, while distributing all of today's income to shareholders may be received well in the short run, it can undermine their future returns and weaken the growth outlook for the larger economy. I can only caution against relaxing current capital requirements and allowing the largest banks to increase their already highly leveraged positions. The real economy has little to gain, and much to lose, by doing so.

Sincerely,

/s/

Thomas M. Hoenig
Vice Chairman, FDIC

cc: U.S. Senate Committee on Banking, Housing & Urban Affairs
Attachments

Attachments:

2017 Payout Analysis - 10 Largest Bank Holding Companies

1	2	3	4	5	6	7	8
		Analysis of Total Payouts (Dividends and Share Repurchases)			Analysis of Share Repurchases Only		
Top 10 Bank Holding Companies[1]	**1Q 2017 Annualized Net Income**	**2017 CCAR Approved Total Payout Ratio (includes dividends and share repurchases)**	**2017 Total Payouts**	**Lending supported by payouts[2]**	**2017 CCAR Approved Payout Ratio (share repurchases only)**	**2017 Share Repurchases**	**Lending supported by payouts[2]**
JPMorgan Chase & Co.	$25,792,000	107%	$27,597,440	$246,092,213	76%	$19,601,920	$174,794,469
Bank of America Corporation	$19,424,000	86%	$16,704,640	$148,958,810	62%	$12,042,880	$107,388,910
Wells Fargo & Company	$21,828,000	90%	$19,645,200	$175,180,406	54%	$11,787,120	$105,108,244
Citigroup Inc.	$16,360,000	127%	$20,777,200	$185,274,690	104%	$17,014,400	$151,721,006
Goldman Sachs Group, Inc.	$9,020,000	98%	$8,839,600	$78,824,584	80%	$7,216,000	$64,346,599
Morgan Stanley	$7,720,000	103%	$7,951,600	$70,906,100	75%	$5,790,000	$51,630,655
U.S. Bancorp	$5,892,000	75%	$4,419,000	$39,405,158	42%	$2,474,640	$22,066,889
PNC Financial Services Group, Inc.	$4,228,876	99%	$4,186,587	$37,332,684	64%	$2,706,481	$24,134,261
Capital One Financial Corporation	$3,241,548	65%	$2,107,006	$18,788,620	46%	$1,491,112	$13,296,562
Bank of New York Mellon Corporation	$3,688,000	108%	$3,983,040	$35,517,611	82%	$3,024,160	$26,967,075
Total	**$117,194,424**		**$116,211,313**	**$1,036,280,877**		**$83,148,713**	**$741,454,669**

Values are in thousands. Sources: FR Y-9C and FFIEC Call Reports accessed through SNL; Barclays Research "*CCAR 2017 Review: $132bn of Capital To Be Returned Over Next 4 Quarters*", June 29, 2017; Credit Suisse Research "*2017 CCAR: Stress Relief - Willingness to Ask and to Grant More Evident; Payouts Up*", June 28, 2017.

[1] Includes the 10 largest banking organizations by total assets that declared dividends on common stock in 1Q 2017, per regulatory reporting Y-9C. Excludes intermediate holding companies.

[2] Represents the amount of potential lending supported if payouts were used as the capital base for 100% RW loans, including commercial lending such as small business loans as well as consumer loans. The amount of lending activity supported by payouts could be twice as large for 50% RW loans, such as residential mortgages. Assumes a 11.2% equity capital ratio, which was the weighted average ratio for all insured depository institutions at 3/31/2017.

Global Capital Index

Capitalization Ratios for Global Systemically Important Banks (GSIBs)

Data as of December 31, 2016

	Basel Risk-Based Capital				Tangible Capital				Components of Tangible Capital			Price-to-Book	
					GAAP		IFRS ESTIMATE						
Institution	Tier 1 Capital ($Billions)	Risk-Weighted Assets ($Billions)	Tier 1 Capital Ratio (Percent)	Self-Reported Basel III Leverage Ratio (Percent)	Total Assets ($Billions)	Leverage Ratio (Percent)	Total Assets ($Billions)	Leverage Ratio (Percent)	Total Equity ($Billions)	Goodwill and Other Intangibles ($Billions)	Deferred Tax Assets ($Billions)	Price-to-Book Ratio (Percent)	Price-to-Adjusted Tangible Book Ratio (Percent)
U.S. G-SIBs													
Bank of America	190	1,530	12.44	6.90	2,189	8.26	2,778	6.44	267	75	19	0.92	1.50
Bank of New York Mellon	21	170	12.59	5.60	333	5.70	344	5.52	39	21	0	1.41	3.48
Citigroup	178	1,167	15.29	7.22	1,792	8.70	2,347	6.57	225	28	47	0.80	1.27
Goldman Sachs	82	550	15.00	6.40	860	9.28	1,513	5.25	87	4	4	1.24	1.39
JPMorgan Chase	208	1,477	14.09	6.52	2,491	8.18	3,350	6.05	254	54	1	1.35	1.77
Morgan Stanley	68	358	19.01	6.20	815	7.74	1,226	5.11	76	9	5	1.14	1.44
State Street	15	100	14.74	5.60	243	5.72	252	5.51	21	8	0	1.65	2.90
Wells Fargo	171	1,336	12.82	7.50	1,930	8.16	2,001	7.86	200	46	0	1.57	2.12
U.S. G-SIBs ($ Total, % Weighted Average)	935	6,688	13.98	…	10,654	8.20	13,810	6.28	1,169	245	76	1.29	1.64
Foreign G-SIBs													
Agricultural Bank of China Limited (China)	189	1,706	11.06	6.27			2,816	6.22	190	4	12	0.75	0.82
Banco Santander (Spain)	78	620	12.53	4.98			1,412	3.56	108	31	29	0.80	2.15
Bank of China Limited (China)	199	1,622	12.28	7.06			2,612	7.93	214	2	5	0.69	0.72
Barclays (UK)	70	452	15.58	4.60			1,498	4.85	88	10	7	0.65	0.84
BNP Paribas (France)	87	673	12.87	4.40			2,190	4.08	111	14	8	0.82	1.07
BPCE Group (France)	60	412	14.48	4.94			1,303	4.82	73	6	5	…	…
China Construction Bank (China)	226	1,718	13.15	7.03			3,017	7.36	229	3	4	0.86	0.89
Crédit Agricole Group (France)	88	549	16.08	5.70			1,817	4.83	109	16	6	…	…
Deutsche Bank (Germany)	59	376	15.58	3.50			1,677	2.90	68	9	11	0.40	0.59
HSBC (UK)	138	857	16.10	5.40			2,375	6.56	183	21	7	1.03	1.26
Industrial and Commercial Bank of China (China)	281	2,096	13.42	7.55			3,473	7.98	285	4	4	0.79	0.81
ING Bank (Netherlands)	54	331	16.34	4.80			891	5.65	53	2	1	1.04	1.10
Nordea bank (Sweden)	29	140	20.69	5.00			649	4.62	34	4	0	1.32	1.51
Royal Bank of Scotland (UK)	50	282	17.71	5.10			986	5.20	61	8	2	0.64	0.80
Société Générale (France)	55	375	14.80	4.20			1,458	3.87	69	7	7	0.71	0.94
Standard Chartered (UK)	42	269	15.70	5.70			647	6.59	49	5	2	0.63	0.74
UBS (Switzerland)	44	222	19.94	4.58			920	3.78	53	6	13	1.10	1.75
UniCredit (Italy)	37	408	9.04	3.24			906	2.95	46	3	16	0.46	0.91
Foreign IFRS ($ Total, % Weighted Average)	1,786	13,109	13.63	…			30,649	5.69	2,023	156	140	0.77	0.90
Other Foreign G-SIBs													
Credit Suisse (Switzerland; CHF, U.S. GAAP)	48	267	18.01	4.40	807	3.88			42	5	6	0.73	0.99
Mitsubishi UFJ FG (Japan; JPY, Local GAAP)	126	986	12.74	4.69	2,590	4.95			139	10	1	0.66	0.72
Mizuho FG (Japan; JPY, Local GAAP)	70	554	12.59	3.90	1,752	3.96			78	9	0	0.56	0.63
Sumitomo Mitsui FG (Japan; JPY, Local GAAP)	81	595	13.53	4.63	1,649	5.08			93	9	1	0.66	0.75
All Foreign G-SIBs ($ Total, % Weighted Average)	2,110	15,512	13.61	…	37,446	5.49			2,375	189	148	0.72	0.86
U.S. BHC by Size Group													
U.S. G-SIBs	935	6,688	13.98		10,654	8.20	13,810	6.28	1,169	245	76	1.29	1.64
Ten Largest Non-G-SIBs	214	1,844	11.62		2,282	8.61	2,294	8.57	272	75	8	1.39	2.01
Ten Largest Less Than $50 Billion	32	253	12.76		354	8.42	354	8.42	39	7	2	1.72	2.26

Source: Federal Reserve Y-9C Reports, Securities and Exchange Commission Form 10-K, SNL Financial (Data update as of April 3, 2017).