Statement by Vice Chairman Travis Hill on the Discussion Draft relating to Bank Capital Distributions in Unusual and Exigent Circumstances.

December 17, 2024

Director Chopra's proposal would generally prohibit all FDIC-supervised institutions from paying capital distributions when the Federal Reserve invokes emergency authority under Section 13(3) of the Federal Reserve Act ("Section 13(3)").[1] Although the Board is not voting on this item, the proposal has a litany of problems, and I will briefly mention just a few.

First, this would mean that, if Section 13(3) is invoked, FDIC-supervised institutions, which include most community banks, would be prohibited from paying distributions, while OCC- and Federal Reserve-supervised institutions would not. Second, it would mean that bank holding companies with profitable nonbank subsidiaries would generally be able to continue making distributions, while bank holding companies with only FDIC-supervised subsidiaries generally would not. Third, it would mean that well-capitalized, well-rated banks that do not utilize government support would be prohibited from paying distributions while nonbanks that *do* utilize a Federal Reserve facility would not.

As is well known, an industry-wide prohibition on banks' distributions makes banks less attractive as investments and hurts their ability to raise capital.[2] The Federal Reserve designed its stress test program assuming that banks would continue to pay distributions during periods of economic stress.[3] Furthermore, a blanket prohibition would make the probability of private capital stepping in to rescue struggling banks during such periods – a common, stability-enhancing occurrence over the years – far less likely, increasing the likelihood that such banks end up in FDIC receivership instead.

This is an overly-broad, counterproductive proposal that would put FDIC-supervised institutions at a significant disadvantage relative to their bank and nonbank peers.

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[1] 12 U.S.C. § 343(3).

[2] *See, e.g.*, Owen Walker, "Europe's banks fear investor flight after dividend bans," *Financial Times* (Dec. 26, 2020).

[3] *See* Federal Reserve System, Supervisory and Company-Run Stress Test Requirements for Covered Companies, 77 Fed. Reg. 62,378 (Oct. 12, 2012); Federal Reserve System, Regulations Q, Y, and YY: Regulatory Capital, Capital Plan, and Stress Test Rules, 85 Fed. Reg. 15,576, 15,578 (Mar. 18, 2020) ("…a firm's stress capital buffer requirement includes four quarters of planned common stock dividends (in the fourth through seventh quarters of the nine-quarter planning horizon).").