April 25, 2009

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WASHINGTON (Reuters) - The United States broadly outlined how it "stress tested" the health of the country's top 19 banks on Friday, but disappointed investors who were looking for more details of how stringent the tests were.

The Federal Reserve said banks would need to hold substantially more capital than usually required so they could withstand a more severe economic downturn, and indicated it might not let the industry off the hook easily.

"The market may be disappointed by the lack of details, as there is not much new in the report, but at the margin, it does sound as if regulators will give each company a real review, rather than a rubber stamp of approval," said Paul Miller, an analyst with FBR Capital Markets in Arlington, Virginia.

The Fed said the tests conducted at major banks are aimed at ensuring the institutions have enough capital in reserve to continue to lend in potentially bleaker conditions, and are not a measure of banks' current solvency.

"It is important to recognise that the assessment is a 'what if' exercise intended to help supervisors gauge the extent of capital needs across a range of potential economic outcomes," the Fed said in a paper outlining the methodologies regulators employed.

The results of the tests will be released during the week of May 4, and regulators hope that by outlining the methodology they employed, investors will have a way to gauge the results.

Some banks with too thin a capital cushion will have six months to find private funds, others may need to accept an immediately infusion of taxpayer money.

The 19 banks tested, which include Citigroup <C.N>, JPMorgan Chase <JPM.N> and Wells Fargo <WFC.N>, hold two-thirds of the assets and more than one-half of the loans in the U.S. banking system.

LACK OF DETAIL

The paper detailed the asset categories regulators were examining, offered a framework for how they would determine the size of potential losses, and outlined a process for reconciling regulators' figures with the banks' own assessments.

However, it did not quantify the size of the capital buffers banks may need to build.

The banks were given the results of the tests on Friday. U.S. regulators are expected to release at least an industry wide assessment, and the White House said it expects some of the banks to release their own results.

"Our strong inclination is to provide transparency," White House spokesman Robert Gibbs told reporters. "I think you'll see some banks release on their own some of the results and we'll release what we deem applicable."

The Fed said most U.S. banks have capital levels well in excess of the amounts required to be deemed well capitalized. However, it said heavy losses had lowered capital and choked off lending.

Officials said the amount of additional capital any bank might need would vary, depending on their risk profile.

Examiners subjected the banks to scenarios in which the economy shrinks by as much as 3.3 percent this year and in which unemployment goes as high as 10.3 percent next year.

The baseline scenario for house prices built in a 14 percent fall this year, and 4 percent next year, but the Fed also considered a more adverse scenario of a 22 percent this year and 7 percent next year.

The economic assumptions were laid out weeks ago, and investors had hoped the paper released by the Fed would fill in the holes by showing how different types of assets would get hit if the economy continued to deteriorate.

"This document is so thin, it's ridiculous," said Daniel Alpert, managing director of Westwood Capital in New York. "What's important is the assumed magnitude of potential losses for different assets. That hasn't been revealed."

RESTORING CONFIDENCE

The Obama administration hopes the stress tests restore confidence in the U.S. banking sector, which has been battered by losses from the collapse of the housing market, a spike in credit defaults and the painful recession.
A senior Fed official said on Friday that although some see signs the recession may be ending, doubts remain.

The tests are likely to require some institutions to come clean about losses and commit to a course of action to regain health. Those salvage plans could include government assistance and, at the extreme, result in the firing of senior managers.

U.S. Treasury Secretary Timothy Geithner announced the tests on February 10 along with plans to cleanse toxic assets from banks' balance sheets. The institutions undergoing stress tests also include: Bank of America <BAC.N>, Goldman Sachs<GS.N>, Morgan Stanley <MS.N>, MetLife <MET.N>, PNC Financial Services Group <PNC.N>, US Bancorp <USB.N>, Bank of NY Mellon Corp <BK.N>, SunTrust Banks Inc <STI.N>, State Street <STT.N>, Capital One Financial <COF.N>, BB&T <BBT.N>, Regions Financial <RF.N>, American Express <AXP.N>, Fifth Third Bancorp <FITB.O>, Keycorp <KEY.N> and GMAC <GKM.N>.
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