



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”<sup>1</sup>, 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).

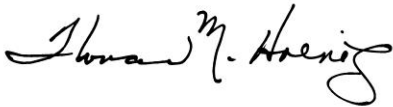
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<sup>1</sup> <https://www.fdic.gov/news/news/speeches/spsep2016.html> for further discussion and footnotes related to the Global Capital Index

- 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,

A handwritten signature in cursive script that reads "Thomas M. Hoenig". The signature is written in black ink and is positioned above the typed name.

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

| Top 10 Bank Holding Companies <sup>1</sup> | 1Q 2017 Annualized Net Income | Analysis of Total Payouts (Dividends and Share Repurchases)                      |                      |   | Analysis of Share Repurchases Only                       |                        |   |
|--|-------------------------------|--|----------------------|---|--|------------------------|---|
|  |                               | 2017 CCAR Approved Total Payout Ratio (includes dividends and share repurchases) | 2017 Total Payouts   | Lending supported by payouts <sup>2</sup> | 2017 CCAR Approved Payout Ratio (share repurchases only) | 2017 Share Repurchases | Lending supported by payouts <sup>2</sup> |
| 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                              |
| <b>Total</b>                               | <b>\$117,194,424</b>          |  | <b>\$116,211,313</b> | <b>\$1,036,280,877</b>                    |  | <b>\$83,148,713</b>    | <b>\$741,454,669</b>                      |

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.

<sup>1</sup>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.

<sup>2</sup>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

| Institution  | Basel Risk-Based Capital    |                                   |                                |                           | Self-Reported Basel III Leverage Ratio (Percent) | Tangible Capital         |                           |                          |                           | Components of Tangible Capital |   |                                  | Price-to-Book                 |   |
|--|-----------------------------|-----------------------------------|--------------------------------|---------------------------|--|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------------|---|----------------------------------|-------------------------------|---|
|  | Tier 1 Capital (\$Billions) | Risk-Weighted Assets (\$Billions) | Tier 1 Capital Ratio (Percent) | Total Assets (\$Billions) |  | GAAP                     |                           | IFRS ESTIMATE            |                           | Total Equity (\$Billions)      | Goodwill and Other Intangibles (\$Billions) | Deferred Tax Assets (\$Billions) | Price-to-Book Ratio (Percent) | Price-to-Adjusted Tangible Book Ratio (Percent) |
|  |                             |                                   |                                |                           |  | Leverage Ratio (Percent) | Total Assets (\$Billions) | Leverage Ratio (Percent) | Total Assets (\$Billions) |                                |   |                                  |                               |   |
| <b>U.S. G-SIBs</b>                                       |                             |                                   |                                |                           |  |                          |                           |                          |                           |                                |   |                                  |                               |   |
| 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                          |   |
| <b>U.S. G-SIBs (\$ Total, % Weighted Average)</b>        | <b>935</b>                  | <b>6,688</b>                      | <b>13.98</b>                   | <b>...</b>                | <b>10,654</b>                                    | <b>8.20</b>              | <b>13,810</b>             | <b>6.28</b>              | <b>1,169</b>              | <b>245</b>                     | <b>76</b>                                   | <b>1.29</b>                      | <b>1.64</b>                   |   |
| <b>Foreign G-SIBs</b>                                    |                             |                                   |                                |                           |  |                          |                           |                          |                           |                                |   |                                  |                               |   |
| 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                          |   |
| <b>Foreign IFRS (\$ Total, % Weighted Average)</b>       | <b>1,786</b>                | <b>13,109</b>                     | <b>13.63</b>                   | <b>...</b>                | <b>...</b>                                       | <b>...</b>               | <b>30,649</b>             | <b>5.69</b>              | <b>2,023</b>              | <b>156</b>                     | <b>140</b>                                  | <b>0.77</b>                      | <b>0.90</b>                   |   |
| <b>Other Foreign G-SIBs</b>                              |                             |                                   |                                |                           |  |                          |                           |                          |                           |                                |   |                                  |                               |   |
| 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                          |   |
| <b>All Foreign G-SIBs (\$ Total, % Weighted Average)</b> | <b>2,110</b>                | <b>15,512</b>                     | <b>13.61</b>                   | <b>...</b>                | <b>37,446</b>                                    | <b>5.49</b>              | <b>...</b>                | <b>...</b>               | <b>2,375</b>              | <b>189</b>                     | <b>148</b>                                  | <b>0.72</b>                      | <b>0.86</b>                   |   |
| <b>U.S. BHC by Size Group</b>                            |                             |                                   |                                |                           |  |                          |                           |                          |                           |                                |   |                                  |                               |   |
| 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                        | 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).