U.S. bank stress test results delayed as conclusions debated

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The Federal Reserve is postponing the release of stress tests on the biggest U.S. banks while executives debate preliminary findings with examiners, according to government and industry officials.

The results, originally scheduled for publication on May 4, now may not be revealed until toward the end of next week, said the people, who declined to be identified. A new release date may be announced as soon as today, they said.

Regulators and bank executives are concerned about how the disclosure is handled because weaker institutions could suffer a collapse in their stock prices.

"Everybody understands they've got a tiger by the tail here," said Mark Tenhundfeld, a senior vice president at the American Bankers' Association in Washington. "If they don't let him go gently, there will be a lot of mauling going on."

The 19 firms include Citigroup Inc., Bank of America Corp., Goldman Sachs Group Inc., GMAC LLC, MetLife Inc. and regional lenders including Fifth Third Bancorp and Regions Financial Corp. The banks in the test hold two-thirds of the assets and more than half of the loans in the U.S. banking system, according to a Fed study released April 24.

Regulators are pushing higher minimum capital levels for the banks to determine whether they can survive a worsening recession.

Officials favor tangible common equity equal of about 4 percent of a bank's assets and Tier 1 capital worth about 6 percent, according to people familiar with the tests of the largest 19 banks. Financial institutions received preliminary results and are being judged on whether they need more capital to ensure they stay above those levels. Earlier in the process, regulators discussed a TCE target of 3 percent, said two people with knowledge of the deliberations.

'Dominant' Element

The Fed, which oversaw the stress tests, wants common equity to be the "dominant" element in a bank's primary capital, according to a central bank report on the test methodology released a week ago. TCE is a measure of a bank's financial health that excludes intangible assets such as brand names that can't readily be used as payments.

Investors and analysts have focused on the TCE ratio as a more accurate benchmark of a bank's ability to absorb losses.

Tier 1 capital is a broader measure of bank health that is commonly used by regulators.

Regulators typically look at risk- weighted assets when assessing banks' financial strength.

Stocks Rally

The Standard & Poor's 500 Financials Index, which comprises 80 companies, is up 30 percent in the past month as officials played down the prospect of nationalization and the economy showed signs of stability. Shares of Goldman Sachs are up 28 percent over the same period and JPMorgan Chase & Co. has rallied 33 percent.

"One thing the stress tests will do is herald a fundamental shift in approach toward the financial system," said Stephen Stanley, chief economist at RBS Securities Inc. in Greenwich, Connecticut.

Initially, Stanley said, the Treasury's Troubled Asset Relief Program treated all banks equally. "Now, finally, there is going to be differentiation. Some banks will get a clean bill of health and others will not," he said.

The Fed led the stress tests, using as many as 140 staff members working in consultation with 60 people from other bank oversight agencies.

Goldman Sachs Signal

While the banks were ordered not to release the results of the stress assessments prematurely, Goldman Sachs yesterday may have provided a hint with its decision to sell bonds and shares, issuing $2 billion in five-year notes without a government guarantee and making a $750 million stock offering. A spokesman for Goldman Sachs declined to comment.

"You can read between the lines on it that nothing adverse will be coming out next week" about Goldman Sachs, said Ralph Cole, a money manager at Portland, Oregon-based Ferguson Wellman Capital Management Inc., which oversees $2.2 billion.

At least six of the 19 largest U.S. banks require additional capital, according to preliminary results of government stress tests, people briefed on the matter said this week. While some of the lenders may need extra cash injections from the government, most of the capital is likely to come from converting preferred shares to common equity, the people said.

By pushing conversions, rather than federal assistance, the government would allow banks to shore themselves up without the political taint that has soured both Wall Street and Congress on the bailouts. The risk is that, along with diluting existing shareholders, the government action won't seem strong enough.

Geithner TARP Reassurance

Treasury Secretary Timothy Geithner told U.S. lawmakers yesterday that there is no need for new bank bailout money as of now, said Senate Budget Committee Chairman Kent Conrad.

"He said 'no, not in the foreseeable future and they're hoping not at all'," Conrad, a North Dakota Democrat, said in an interview after Democrats held a closed meeting with Geithner in Washington.

Geithner has said that banks can add capital by a variety of ways, including converting government-held preferred shares dating from capital injections made last year, raising private funds or getting more taxpayer cash. With regulators putting an emphasis on common equity in their stress tests, converting privately held preferred shares is another option.