BUSINESS

Banks able to up dividends

'This is the last act in the recovery from financial crash,' analyst says

THE ASSOCIATED PRESS

NEW YORK — Bank shareholders got a long-awaited gift from the U.S. Federal Reserve on Friday when the central bank cleared the way for major lenders to increase their dividends.

It was the last hurdle left on the path to recovery for banks and signified a return to health for the industry. Banks were forced to cut their dividends to preserve cash after the financial crisis that peaked in September 2008, when the industry was propped up by a U.S. government bailout package totaling $700 billion.

"This is the last act in the recovery from the financial crash," said Nancy Bush, financial analyst and contributing editor at SNL Financial. "But banks are still not free of close regulatory scrutiny and managements and boards still can't act freely to raise future dividends."

Banks that received clearance to raise their dividends wasted little time in doing so. JPMorgan Chase & Co. said it would increase its quarterly dividend to 25 cents a share from 5 cents. Wells Fargo & Co. raised its dividend to 12 cents, while U.S. Bancorp increased its dividend to 12.5 cents a share.

Stocks of the banks that made dividend announcements rose sharply. JPMorgan rose 2 percent, Wells Fargo rose 1.2 percent and U.S. Bancorp rose 1.1 percent.

Banks were allowed to increase their dividends only if they passed "stress tests" conducted by the Federal Reserve to see if their balance sheets were strong enough to weather another recession.

The Fed said it had completed those tests and expects that "some" banks will increase or resume dividend payments, buy back shares or repay government capital.

The Fed did not reveal the names or number of banks that are expected to do so.

Notable for their absence from the list were Citigroup Inc. and Bank of America Corp., the nation's largest bank. Citi said it expects to increase its dividends in 2012 and Bank of America CEO Brian Moynihan in recent weeks has said he hopes to increase the bank's dividends in the second half of the year.

The Fed also cleared investment bank Goldman Sachs to buy back all the preferred shares it issued to Berkshire Hathaway Inc., the investment company run by billionaire Warren Buffett. Buffett received the shares in return for a $5 billion investment at the height of the financial crisis. It was an expensive deal for Goldman, which paid out $500 million per year in dividends.

Other banks also announced large share repurchases. JPMorgan said it would buy back $15 billion of its own stock. Wells Fargo said it would buy

See BANKS on page 9A

BANKS

FROM PAGE 8A

200 million shares and U.S. Bancorp announced a buyback program of 50 million shares.

"The fact that these banks are buying back shares indicates that the banks have capital in excess of what the Fed is comfortable with," said Bush.

All of the 19 largest banks overseen by the Fed were subject to the examinations.

By increasing dividend payments, banks may be able to attract new investors, which should lead to more lending, the Fed said.

The Fed said it is taking a "measured and conservative approach" on banks' dividend requests. The Fed said it expects banks to limit dividends to 30 percent or less of their anticipated earnings.

Under the stress tests, banks had to show that they could weather another recession. That was defined as a scenario in which U.S. economic activity would shrink 1.5 percent this year and unemployment would spike to 11 percent. In addition, stocks and home prices would fall sharply.

Across the Atlantic, European regulators pledged to make their banks' stress tests this year more difficult than last year's.

The Fed didn't publicly release the results of this latest round of stress tests, which is standard practice in bank exams.

The Fed deviated from that practice when it conducted its first stress tests in 2009, when the country was reeling from a severe recession and the financial crisis.

Those results were made public in a move to boost confidence in the fragile U.S. banking system.

At the time, the government had launched a taxpayer-funded bailout of banks. The fear was that by withholding information on banks' health, investors' and the American public's shaky confidence would be further hurt, worsening the recession.

The Fed plans to conduct stress test on big banks every year. It's part of a broader effort to strengthen oversight of banks and prevent another financial crisis from happening.