We study bank equity issuance during 2001–14 by publicly traded U.S. banks through seasoned equity offerings (SEOs), private investment in public equity (PIPEs), and the Troubled Asset Relief Program (TARP). Our results show that private investors were an active and important source of bank recapitalization in the United States as issuance through SEOs and PIPEs peaked in the recent crisis. We find that bank characteristics predict which firms are likely to issue equity, whereas trading indicators predict issuance type. Specifically, we find large banks with illiquid but better quality assets were more likely to issue equity during the crisis, and investors almost always issued equity to well-capitalized banks. In addition, we find banks with lower trading activity and wider spreads were more likely to issue equity under TARP than to private investors. These results indicate that banks with less transparent assets—assets that are harder to value—are less likely to issue equity to private investors. Our findings suggest, however, that once banks issue equity under TARP, they are more likely to issue to private investors in the future. Indeed, in some cases, banks issued equity to private investors to repurchase equity under TARP.

JEL Classification: G21, G28, G32

Article Citations

- Black, Lamont, Ioannis Floros, and Rajdeep Sengupta. 2016. “Raising Capital When the Going Gets Tough: U.S. Bank Equity Issuance from 2001 to 2014,” Federal Reserve Bank of Kansas City, working paper no. 16-05, June, available at https://doi.org/10.18651/RWP2016-05
Rajdeep Sengupta
Senior Economist

Rajdeep Sengupta is a senior economist at the Federal Reserve Bank of Kansas City. He joined the Kansas City Fed in July 2013. His research areas are banking, financial intermediation and applied microeconomics. His most recent work focuses on lender competition and the subprime mortgage market. He received his Ph.D. from Vanderbilt University in 2006 and was an economist at the Federal Reserve Bank of St. Louis.