



Economic Review

The Effect of Risk and Organizational Structures on Bank Capital Ratios

by: Rajdeep Sengupta and Eric W. Hogue

October 01, 2014

Capital holdings can help banks absorb unexpected losses and protect the financial system from costs associated with bank failures. As a result, a bank's capital ratio—the ratio of equity capital to total assets—can serve as an important benchmark for financial stability. Although banks are required to hold sufficient capital to meet regulatory minimums, they may have mixed incentives to hold capital in excess of these requirements. Rajdeep Sengupta and Eric W. Hogue examine how a bank's riskiness and organizational structure affect its capital holdings. They find that banks with higher risk and banks that are not owned by a bank holding company have higher capital ratios than low-risk and holding-company banks.

Publication information: 4th Quarter 2014



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.
