Economic Review

# The Effect of Risk and Organizational Structures on Bank Capital Ratios

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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

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