U.S. Lenders May Have to Raise $300 Billion, Deutsche Bank Says

By Josh Fineman and Ambereen Choudhury

July 7 (Bloomberg) -- U.S. banks may have to raise as much as $300 billion to cover growing credit losses and regulators' future capital requirements, Deutsche Bank AG said.

At least $100 billion might be needed to rebuild Tier 1 common equity, a gauge regulators use to measure a bank's ability to withstand losses, Deutsche Bank analyst Matt O'Connor wrote in a report. Future Tier 1 requirements may climb close to 10 percent of assets, which would require an additional $100 billion to $200 billion of capital, according to the report.

"We expect continued weak bank results in the second quarter as credit pressures continue," said O'Connor, who has two "buy" recommendations on the 16 lenders covered by Deutsche Bank: Regions Financial Corp. of Birmingham, Alabama, and Minneapolis-based U.S. Bancorp.

U.S. banks have already raised about $507.1 billion since the beginning of the financial crisis in 2007, according to data compiled by Bloomberg. The Federal Reserve conducted stress tests on the nation's biggest lenders earlier this year, and forced 10 of them to raise $75 billion as a cushion against a worsening recession.

The U.S. economy will shrink by the most since 1946 this year, according to a Bloomberg survey of 61 economists last month. The jobless rate rose to 9.5 percent in June, the highest since August 1983.

Of the 16 lenders covered by Deutsche Bank, Wells Fargo & Co. will have the "strongest quarter," O'Connor wrote. The San Francisco-based bank probably had "robust mortgage and trading results as well as solid balance sheet and net-interest-margin trends," according to the analyst.

Wells Fargo

Wells Fargo is the fourth-biggest U.S. bank by assets, behind Charlotte, North Carolina-based Bank of America Corp., JPMorgan Chase & Co. and Citigroup Inc. Deutsche Bank doesn't cover JPMorgan or Citigroup, which are both based in New York.

Cleveland's KeyCorp, Marshall & Ilsley Corp. of Milwaukee, Atlanta's SunTrust Banks Inc. and Zions Bancorporation of Salt Lake City will probably have the weakest quarters, O'Connor said.

Banks will likely report losses for the second half of this year and much of 2010, according to the report. O'Connor said "normalized" earnings will take longer to achieve than most analysts predict, and he said the eventual level of normalized profit will likely be lower than current estimates.

"This is being driven by consumer losses remaining elevated longer than expected, commercial and related losses possibly reaching to 10 to 11 percent in 2009 to 2011," O'Connor wrote.

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