Big US banks may be forced to raise more capital soon: Analyst

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Most big US banks may be forced to make public offerings soon if the Treasury demands payback of the funds it issued under the Troubled Assets

Relief Program, veteran banking analyst Richard Bove said. The US Federal Reserve this month asked banks that were part of its "stress tests" to submit plans to repay government money, if they have not already repaid it. "Virtually all of the banks can easily redeem their TARP preferreds from current cash holdings. However, it may be that only 3 of the top 30 would have an adequate Tier 1 Capital ratio if they redeemed these preferreds," Bove said in a note to clients.

The Rochdale Securities analyst said burgeoning fiscal deficit, which is expected to touch 9.5 percent this fiscal, and a plunging dollar are forcing the US government to obtain money from wherever it can find it. Repayment of the TARP funds would be one available source, Bove wrote. Many US banks are eager to repay money borrowed under the government's $700 billion TARP.

Participation in the program comes with limitations on pay, dividend payouts and share repurchases. It is believed that the Treasury was looking for Tier 1 Capital ratios of 12 percent at US banks, and the banks would be forced to raise capital, without government assistance, before they are allowed to repay their TARP preferreds, Bove said. "This raises the specter that a number of banks will be making public offerings soon despite the fact that their earnings remain under a cloud." The US Treasury Department said on Nov. 19 it would auction off stock warrants it received from three big banks that received taxpayers' funds from the government's financial rescue fund.

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