

The Effectiveness of Bank Recapitalization Policies: Evidence from the United States

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Abstract:

On the heels of the termination of the United States Capital Purchase Program (CPP), which has injected over 200 billion dollars of capital in U.S. financial institutions, we analyze the impact of the CPP on various policy objectives laid out by the U.S. Treasury. Our findings demonstrate that the Capital Purchase Program was successful in achieving the main policy objective of the program: boosting recipient banks' regulatory capital ratios. But we find that the program had no effect on another stated policy objective, to stimulate bank lending. On the contrary, we find evidence that recipient banks reduced lending and cut highly risk-weighted assets, presumably in order to increase their regulatory capital ratios. Finally, although encouraging banks to increase bad loan write-offs was not an explicit policy objective of the CPP according to our reading of statements from the Department of Treasury, we also look at the impact of the program on bad loan write-offs and find some evidence that recapitalization stimulated bad loan write-offs.

Keywords: bank, crisis, recapitalization, capital injection

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