

# Accepted Manuscript

Title: Benefits and Costs of a Higher Bank “Leverage Ratio”

Authors: James R. Barth, Stephen Matteo Miller

PII: S1572-3089(17)30652-6  
DOI: <https://doi.org/10.1016/j.jfs.2018.07.001>  
Reference: JFS 637

To appear in: *Journal of Financial Stability*

Received date: 20-9-2017  
Revised date: 10-7-2018  
Accepted date: 16-7-2018

Please cite this article as: Barth JR, Miller SM, Benefits and Costs of a Higher Bank “Leverage Ratio”, *Journal of Financial Stability* (2018), <https://doi.org/10.1016/j.jfs.2018.07.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



## Benefits and Costs of a Higher Bank “Leverage Ratio”

James R. Barth<sup>a</sup> and Stephen Matteo Miller<sup>b,\*</sup>

<sup>a</sup>303 Lowder Business Building, Auburn University, Auburn, AL 36849. E-mail: [barthjr@auburn.edu](mailto:barthjr@auburn.edu)

<sup>b</sup>Mercatus Center, George Mason University, 3434 Washington Blvd., 4th Floor, Arlington, VA 22201. E-mail: [smiller@mercatus.gmu.edu](mailto:smiller@mercatus.gmu.edu)

This Draft: July 9, 2018

### Highlights

- Estimate benefits and costs of a higher leverage ratio for U.S. commercial banks
- Takes into account the high frequency of U.S. banking crises
- Approach suitable for regulators
- Baseline estimates indicate the optimal ratio equals 19 percent

### Abstract

This study reports estimates of the marginal benefits and costs of increasing the regulatory minimum bank equity-to-asset “leverage ratio” from 4 to 15 percent. Benefits arise from reducing the probability of a banking crisis. Costs arise from reduced lending, should banks pass off higher equity costs onto borrowers. Net benefits increase with a higher discount rate, a smaller tax advantage of debt, a lower non-financial corporate debt-to-capital ratio, a higher cost of crises, a longer duration of crises or if crises have some permanent effects. Baseline estimates indicate that the benefits equal costs at 19 percent.

*Keywords:* Bank Regulation, Benefit-Cost Analysis, Capital Adequacy Standards, U.S. Banking Crises

*JEL Classification:* D61, G28, K20, L51, N21, N22, N41, N42

---

\* Corresponding author.

Download English Version:

<https://daneshyari.com/en/article/7408934>

Download Persian Version:

<https://daneshyari.com/article/7408934>

[Daneshyari.com](https://daneshyari.com)