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**Analysis**

## **Banks Use Short-Sale Ban Window to Issue Stock**

Despite the market turmoil, several financial firms have gone into equity markets to raise capital this week.

While Goldman Sachs' (GS) \$5 billion raise made the biggest headlines this week, several other financial firms, including Capital One (COF), First Niagara Financial (FNFG) and Stifel Nicolaus (SF), have completed primary or secondary offerings to help bolster their balance sheets.

Traders and analysts said the banks are responding to a unique situation created partially by the Securities and Exchange Commission's ban on short selling, the proposed \$700 billion bailout package and a lack of access to the frozen debt markets.

"Banks are trying to take advantage of an opportunity that might quickly disappear," said Brian Hamilton, chief executive officer for financial-services firm Sageworks Inc.

Financials are raising capital through stock issues -- usually one of the most expensive forms of capital, and bad from an investor-relations standpoint because they dilute the stakes of current shareholders -- because the cheaper debt markets are completely frozen.

With bond markets and private equity unavailable, even to the most sterling of companies, they have no choice, traders said.

"The debt markets are extremely difficult right now," said one stock trader who declined to be identified. "Good, solid companies are paying high premiums to issue debt, so what's a financial going to pay in this market?"

For example, construction equipment maker Caterpillar (CAT) tried to sell \$1.3 billion in bonds on Tuesday, and had to pay as much as 6% to 7% to get investors to bite. Last time Caterpillar did a debt issue, the company paid around 4.25% to bond holders to make them attractive.

"Now's not a good time to need cash," said Sageworks' Hamilton. "If you have liquidity issues, like many of these banks do, your options are pretty exhausted at this point."

Not all the banks have major issues -- and are selling shares because of the unique environment. First Niagara, a regional bank that has held up well this year, priced \$100 million in new shares on Tuesday to help boost liquidity.

“Fundamentally, the company continues to perform well,” said Anthony Davis, an analyst with Stifel Nicolaus, in a note to investors.

The SEC’s ban on short selling may be influencing the share sales. Usually when a company issues new shares, the stock price moves lower. Both First Niagara and Stifel Nicolas saw their shares rise.

“We’ve created a unique window for these financials to sell stock with no real downside,” said one trader.