CREDIT MARKETS

Bank of America, Morgan Stanley selling debt

By Deborah Levine, MarketWatch
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NEW YORK (MarketWatch) -- Both Bank of America and Morgan Stanley offered debt backed by their own credit Friday, meeting a condition to return money borrowed from the government.

Bank of America (BAC) is selling $3 billion in 5-year debt, according to analysts. The deal is expected to price about 5.38 percentage points above 5-year Treasurys (UST5YR) , or at about 7.52%.

Morgan Stanley (MS) is selling $2 billion in 5-year notes at 3.90 points above Treasurys, or about 6.08%. It is also pricing $2 billion at 4 percentage points more than 10-year notes (UST10Y) , to yield 7.33%.

"It's a sign of confidence being restored, and that's good fro those banks and the broader financial system," said Mark MacQueen, co-founder of Sage Advisory Services, which oversees $6.5 billion in assets. "There are signs of improvement in demand for non-guaranteed financial names."

Press officials for Bank of America and Morgan Stanley could not immediately be reached for comment.

Both companies also plan to sell common stock and take other steps to meet capital requirements of the government's so-called stress tests, released Thursday. See related story.

Banks wanting to return funds taken under the Troubled Asset Relief Program must show that they can issue five-year unsecured debt that is not backed by the Federal Deposit Insurance Corp. guarantees. See more on payback plans.

Other TARP recipients Goldman Sachs (GS) , Bank of New York Mellon (BK) and J.P. Morgan (JPM) have all sold at least $1 billion in debt this year backed by their own credit, according to Informa Global Markets.

All those deals indicate the program that allowed financial institutions to sell debt backed by the FDIC, effectively a government guarantee, helped companies bridge a period when investors were worried about the outlook for all banks, said Andrew Brenner, co-head of structured products and emerging markets at MF Global.

"Basically, it worked," he said. "The FDIC-guaranteed stuff going forward would be minimized as banks try to get out from the government."

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