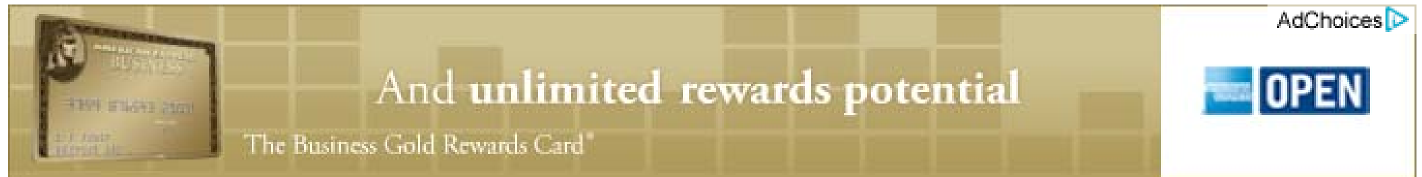

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Ford Deal Offers an Upgrade

Auto Maker Adds Twist to $1.5 Billion Asset-Backed Bond

By KELLIE GERESSY-NILSEN And ANUSHA SHRIVASTAVA

Ford Motor Co.'s financing arm was selling a $1.5 billion asset-backed bond Tuesday that will convert to straight corporate debt if the auto maker's credit rating improves to investment grade, an unusual structure that investors interpreted as a sign of Ford's confidence in its near-term future.

The deal, backed by auto loans, was increased in size from $1 billion, a sign of robust investor appetite. Paul Norris, head of structured products at Dwight Asset Management Co. in Burlington, Vt., said he was told that investors placed orders for $6 billion of the bonds, in part because it could appeal to investors in asset-backed securities and straight corporate debt.

"It's basically investment-grade debt given it's backed by prime auto receivables. They are trying to be creative and get to new participants," said Mr. Norris, adding that Dwight Asset wants to bid for the deal.

Ford, the only U.S. auto maker not to take a government bailout, is hustling to get back an investment-grade credit rating, which it lost in 2005. Such a rating would allow Ford to sell bonds to a large number of institutional investors forbidden to invest in junk bonds; that would probably lower Ford's cost of borrowing.

Cheaper borrowing is important. Ford was the top issuer of asset-backed bonds last year and before the credit crisis it was a large issuer of unsecured debt, too.

"Ford is signaling to all that it's trying to get to investment grade within five years," said Dan Nigro, chief executive of Warfield Consultants in Montclair, N.J.

Ford Motor Credit Co.'s new issue, called Ford Upgrade Exchange Linked Notes, or FUEL notes, is being sold in the private placement Rule 144a market, which is aimed at institutional investors, via the FUEL Trust 2011-1, according to an offering document. Citigroup, Bank of America's Bank of America Merrill Lynch and Goldman Sachs are joint bookrunners.

As suggested by the name, the issue features an upgrade and exchange. As issued, the five-year notes will be investment-grade asset-backed securities. If any two of the three big ratings firms—Moody's Investors Service, Standard & Poor's and Fitch Ratings—raise Ford Motor Credit's senior unsecured credit rating to investment grade, the FUEL notes must be exchanged into senior unsecured notes, keeping the same maturity and coupon.

S&P currently rates Ford's unsecured debt double-B-minus, three notches below investment grade. Fitch rates the auto maker's unsecured debt one notch higher, at double-B. Moody's rates the unsecured debt Ba2.

As a further sign of investor interest, the deal was priced to yield 2 percentage points over Treasurys, below the 2.1 percentage points underwriters expected before the sale, even with the greater supply available.

"We think they are priced attractively," Mr. Norris said. "People are going to jump all over it."

The underlying collateral for the notes is a revolving pool of auto loans, meaning that any loans that are paid off or go delinquent can be replaced with new loans. This structure is generally used in credit-card loan-backed bonds.

"This is indeed the first time they have used this structure in the auto asset-backed securities sector," said Felix Hu, a senior analyst at Moody's Investor Service. "This makes the bond more flexible."

The FUEL deal has been rated Baa2 by Moody's Investors Service and BBB- by Standard & Poor's. Margaret Mellott, a Ford spokeswoman, declined to comment.

Global Concerns Spark a Rally in Treasurys

Treasurys posted a broad rally as Japan's nuclear crisis and a drop in U.S. exports and imports raised worries about the global economic outlook.

It was a relief for the bond market, beset in recent sessions by worries about inflation. Anxiety about higher-price pressure, the main threat to bonds' fixed returns over time, had grown on a view that the Federal Reserve may fall behind in taming an inflation threat by maintaining its monetary stimulus too long.

Japanese officials raised its nuclear crisis to the level of Chernobyl. WSJ's Yumiko Ono reports. Also Jerry Seib reports on a new era of dialogue in Washington as debt ceiling and budget talks heat up again. And Donald Trump gets serious about 2012.

But concerns shifted back to economic growth after the Japanese government raised its assessment of the month-long crisis at the Fukushima Daiichi nuclear-power plant to the highest severity level by international standards. That put the crisis on a par with the Chernobyl accident 25 years ago.

Many investors cut holdings in riskier assets, ranging from U.S. stocks to a wide range of commodities. Crude oil was a big loser on Tuesday, falling more than 3%. The inflows into safe-haven Treasurys boosted a sale of $32 billion in three-year notes. A gauge of overall demand for the sale was the highest since the auction in November.

"Uncertainties surrounding the condition of the damaged reactors in Japan have increased. I think the Treasury market rally may proceed to an extent if the outlook for growth, corporate profits, and inflation all shift to a somewhat softer trajectory," said Christopher Sullivan, who oversees $1.6 billion as chief investment officer at United Nations Federal Credit Union in New York.

Late afternoon, the benchmark 10-year note was 18/32 higher to yield 3.500%. Bond prices and yields move in opposite directions. The yield hit 3.619% last week, the highest level since mid-February.

The 30-year bond was 30/32 higher to yield 4.576% and the two-year note was 5/32 higher to yield 0.750%.

"The bond market benefited from the problems in Japan with the uncertainty in the amount of damage and the assessment of time and money needed to rebuild," said Michael Franzese, head of Treasury trading at Wunderlich Securities in New York.

An unexpected drop in U.K. consumer prices fueled a rally in gilts and also gave Treasurys a lift. The data cut speculation on a May interest-rate increase by the Bank of England. The yield on the two-year gilt, the most sensitive to changes in monetary policy outlook, dropped about 0.12 percentage point to 1.258%.

Bets on a shift into tightening monetary policy in the U.S. were also dented after two key Federal Reserve officials who advocated easy monetary stimulus for the economy said a shift into tightening monetary policy is unlikely any time soon.

Federal Reserve Vice Chairman Janet Yellen and William Dudley, president of the Federal Reserve Bank of

New York, both said Monday that the economy, though improving, still needs continued policy support. Both played down the idea that soaring commodity prices will lead to broader U.S. inflation as they saw the effect that pushed headline consumer prices up in the past two months as transitory.

Despite recent comments from several Fed officials advocating tightening policy to tame any inflation threat, the remarks by Ms. Yellen and Mr. Dudley suggest no policy change is likely to be announced when Fed officials meet April 26-27 and that the Fed will complete its bond buying, as planned, in June, and not sooner.

The two-year Treasury note's yield has dropped from the recent peak of 0.901% on April 1, as interest rates futures traders pared bets on the first rate increase by the Fed in early 2012.

"The doves seem to have the upper hand for now," said Richard Bryant, head of Treasury trading at MF Global Holdings Ltd. in New York. But he said that given the recent comments from the hawks, once the Fed decides to shift to tightening policy, the move is likely to be swift.

The Treasury Department will sell $21 billion in 10-year notes Wednesday and $13 billion in 30-year bonds Thursday.

Meanwhile, the Fed on Tuesday afternoon released the details for its Treasury bond purchases for the next few weeks. The central bank said it will buy approximately $97 billion. The buying will start on Wednesday, targeting maturities between October 2012 and September 2013.

—Min Zeng

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