Bank Debt Stressed at Bear Stearns, Lehman Peaks:

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By John Glover

March 10 (Bloomberg) — Bank debt is as stressed as when Bear Stearns Cos. had to be bailed out and Lehman Brothers Holdings Inc. collapsed, according to analysts at BNP Paribas SA.

The CHART OF THE DAY shows contracts on the Markit iTraxx Financial index of credit-default swaps linked to the senior debt of 25 banks and insurers were more expensive today than the Markit iTraxx Europe corporate index. That hasn't happened since Lehman went bankrupt in September and, before that, JPMorgan Chase & Co.'s takeover of Bear Stearns and it reflects "systemic stress" in the financial system, according to BNP Paribas.

"We're seeing the start of the next leg of the crisis and that's going to be financial bondholders taking a haircut as lenders default," said Mehernosh Engineer, a London-based strategist at BNP Paribas. "There's been a perception that banks' senior bondholders are untouchable but that's going to change."

Bondholders take a haircut in a restructuring when they agree to a reduction in the par value of their securities. Indexes gauging the performance of bank bonds have signaled deteriorating prospects for the securities this year as lenders grapple with $1.2 trillion of writedowns and losses, and the threat of nationalization.

The crossing of the financial and corporate indexes "is clearly not a healthy sign," according to Engineer. Solvency concerns mean that the distortion may continue, "a fact being reflected in cash bonds over the past month," he said.

The extra yield investors demand to hold the lowest-rated bank bonds rather than government notes has gained more than 10 percentage points to a record 34.56 percentage points since the end of January, according to Merrill Lynch & Co.'s Euro Sub-Debt Tier 1 Index. A similar gauge of financial companies' broader debt is at 578 basis points from 474 at end-January.

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