The Credit Risk in Bank of America

Many perverse things are happening in financial markets beyond the easily visible carnage in equity markets. Take Bank of America (BAC) for example. Credit insurance for one year through a credit default swap (CDS) costs 4.35% (according to Bloomberg). One year LIBOR is 0.85%. How does Bank of America function in today’s money markets, where presumably nobody will lend to them at anything close to prevailing rates when the cost of insurance is five times as much. Presumably the only inflows they are receiving are those small enough to qualify for FDIC insurance (i.e. under $250K).

Author has no position in BAC