

(BN) Goldman Sachs bond, stock sales signal no stress test surprises

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Goldman Sachs Group Inc., by selling bonds and stock yesterday, may be signaling that there won't be any surprises next week when the results of government stress tests are revealed.

Goldman Sachs, the fifth-biggest U.S. bank by assets, issued \$2 billion of five-year notes that don't carry a government guarantee, and exercised an option to sell 6.1 million shares for \$750 million. Securities laws require the company to reveal material non-public information before selling any stock or bonds. Lucas van Praag, a spokesman for New York-based Goldman Sachs, declined to comment.

"You can read between the lines on it that nothing adverse will be coming out next week," said Ralph Cole, a money manager at Portland, Oregon-based Ferguson Wellman Capital Management Inc., which oversees \$2.2 billion. "You could easily see shareholder lawsuits if there was something really bad coming out of the government's review."

Goldman Sachs sold \$5 billion of stock earlier this month, which it raised to \$5.75 billion by exercising the so-called green shoe option yesterday. The stock rose yesterday to \$127.18, its first close above the \$123 offering price since the sale on April 14.

Nineteen U.S. banks, including Goldman Sachs, last week learned preliminary results of so-called stress tests conducted by regulators to determine whether they need more capital to withstand an economic decline. The results may be made public as soon as next week and banks have been ordered not to reveal the findings prematurely.

Paying Back TARP

Goldman Sachs earlier this month reported \$1.81 billion in first-quarter profit, more than double the average estimate of analysts. The bank said it intends to use the \$5 billion raised in its stock offering to help repay the U.S. government for a capital injection from the Troubled Asset Relief Program.

Repayment would free the bank from restrictions on compensation and hiring. Analysts and investors said they doubt the stress tests will require Goldman Sachs to raise new capital.

"Goldman took government money, not because they needed it, but because it was the right thing to do," said Michael Holland, chairman and founder of New York-based Holland & Co., which oversees assets in excess of \$4 billion and doesn't own Goldman Sachs stock. On the stress tests, he said, "if there was some huge surprise coming out of it, that would be material."

Results Coming

Agencies overseeing the stress tests and the U.S. Treasury are still debating how much of the information to disclose.

Federal Reserve Chairman Ben S. Bernanke, Treasury Secretary Timothy Geithner and other regulators are scheduled to meet this week to discuss the tests.

At least six banks will require additional capital, according to preliminary results, people briefed on the matter said earlier this week. While some lenders may need extra cash from the government, most of the capital is likely to come from converting preferred shares to common equity, the people said.

Goldman Sachs's debt sale yesterday was priced to yield 410 basis points, or 4.10 percentage points, more than similar-maturity Treasuries, according to data compiled by Bloomberg. It was the bank's second offering of dollar-denominated debt without a federal guarantee this year.

Goldman Sachs competitors also undergoing stress tests, including Citigroup Inc., Bank of America Corp. and Morgan Stanley, haven't been able to sell debt without government guarantees yet.

"It could be in part a way to make the case to the government that, 'Hey, we can repay the TARP because we're strong enough to keep going without your support,'" said Guy Lebas, chief economist with Janney Montgomery Scott LLC in Philadelphia.