Moody’s Investors Service cut its ratings on four of the biggest U.S. banks after deciding the government would be less likely to help them repay creditors in a crisis.

Morgan Stanley (MS), Goldman Sachs Group Inc. (GS), JPMorgan Chase & Co. (JPM) and Bank of New York Mellon Corp. had their senior holding company ratings lowered one level yesterday after Moody’s concluded a review of eight U.S. banks that began in August. Spokesmen for the four companies declined to comment.

U.S. banking regulators have been preparing rules and procedures that seek to allow the government to wind down even the largest financial companies without providing taxpayer assistance. The plans would require investors to accept losses and could require bonds to be converted into equity capital.

“We believe that U.S. bank regulators have made substantive progress in establishing a credible framework to resolve a large, failing bank,” Robert Young, a managing director at Moody’s, said in a statement. “Rather than relying on public funds to bail out one of these institutions, we expect that bank holding company creditors will be bailed-in and thereby shoulder much of the burden to help recapitalize a failing bank.”

Moody’s affirmed the senior holding company ratings of Bank of America Corp. (BAC), Citigroup Inc. (C), State Street Corp. (STT) and Wells Fargo & Co. (WFC)

Narrowing Spreads

Bank of New York was cut to A1 from Aa3, and Goldman Sachs was lowered to Baa1 from A3, Moody’s said. JPMorgan was cut to A3 from A2, and Morgan Stanley was downgraded to Baa2 from Baa1.

Subordinated debt ratings were also lowered for BNY Mellon, Goldman Sachs, JPMorgan, and Morgan Stanley.

Citigroup’s Citibank NA subsidiary had its long-term deposits upgraded to A2 from A3 and short-term rating lifted to Prime-1. Bank of America’s long-term deposit rating was raised to A2 from A3 and its short-term rating was upgraded to Prime-1. State Street’s State Street Bank & Trust Co. subsidiary had its long-term deposit rating and subordinated debt downgraded.
The extra yield investors demand to hold dollar-denominated bank bonds instead of similar-maturity government debt has declined 29 basis points, or 0.29 percentage point, to 138 basis points this year through yesterday, according to the Bank of America Merrill Lynch U.S. Banking Index.

That compares with a narrowing of 8 basis points this year, to a spread of 146 basis points, for the broader high-grade corporate market, the data show. Bank of America’s spread has narrowed 48 basis points to 124 basis points through Nov. 13, and the spread on debt from JPMorgan has narrowed 9 basis points to 111, the data show.

To contact the reporter on this story: Laura Marcinek in New York at lmarcinek3@bloomberg.net

To contact the editor responsible for this story: Peter Eichenbaum at peichenbaum@bloomberg.net