GSR Research

Vintage GFC Era WFC 7.5s & BAC 7.25s: Appealing Higher Dividend in these Turbulent Times with Rate Cut/Spread Tightening Upside Potential

U.S. Convertibles

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April 8, 2025

WFC 7.5s & BAC 7.25s Convertible Preferreds

- These high coupon convertible preferreds were issued in 2008 when banks raised capital in the lead up to the GFC. Wachovia was the original issuer of the current WFCs before the 2008 acquisition.
- A common question asked is: So how come these haven't been refinanced/called even though similar bank preferred yields fell below 5% in the Covid era and were refinanced? Here's why: Unlike straight preferred, these convertible preferreds have a unique feature called a Provisional Call (after the hard call). The issuer can call the preferreds only if the stock is above that threshold. The effective call price is 130% of par
  WFC 7.5s Provisional Call Price ~$204 +228% vs. the current ~$62 stk px
  BAC 7.25s Provisional Call Price ~$65 +83% vs. the current ~$36 stk px
- The dividends on these $1000 par preferreds are qualified dividends
- After the recent sell off both convertible preferreds offer attractive yields (BAC 6.19% and WFC 6.49%)
- Income pickup over the 10Y has increased meaningfully as well (BAC ~200bps, WFC ~230bps)
- The preferreds offer potential double digit total returns driven by the healthy 6%+ current yield and expected price appreciation if rates and/or spreads decline and the price normalizes.

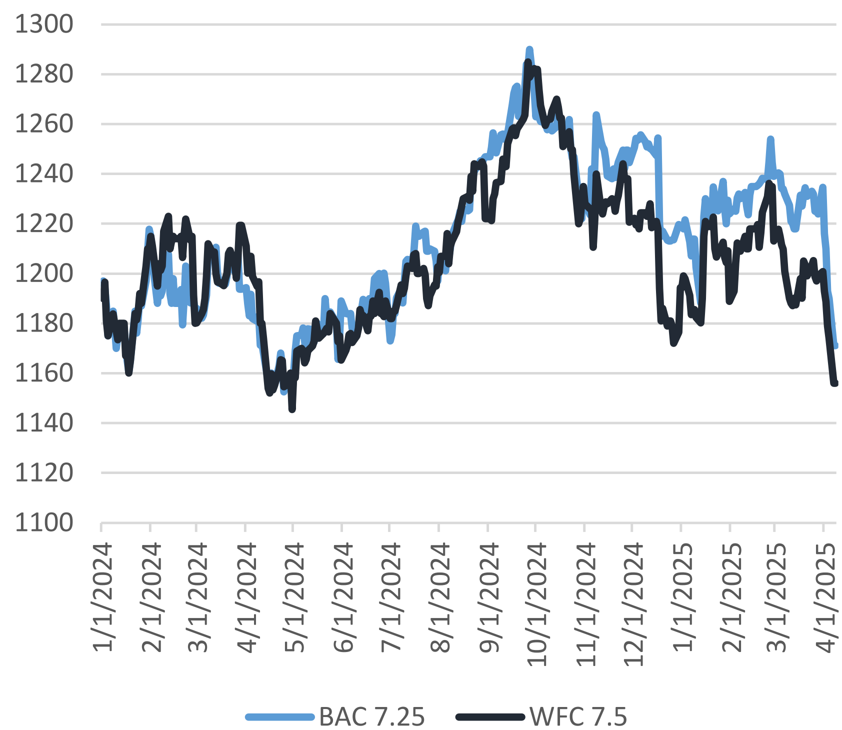
Convert Preferred Details

Ticker	WFC	BAC
Coupon (%)	7.5	7.25
Issue Date	4/17/2008	1/29/2008
Maturity	Perpetual	Perpetual
Face ($mn)	$3,968	$3,080
Par Value	$1,000	$1,000
Price	$1,156	$1,171
Stock Px	$62.17	$35.58
Conv Ratio	6.3814	20.0000
Conv Price	$156.71	$50.00
Prov Call Px	$203.72	$65.00
PC vs. Stk Px	228%	83%
Parity	$396.73	$711.60
Current Yield	6.49%	6.19%
Premium (%)	363%	66%
Moody's	Baa2	Baa2
S&P	BB+	BBB-
CUSIP	949746804	060505682

** DRD and QDI*

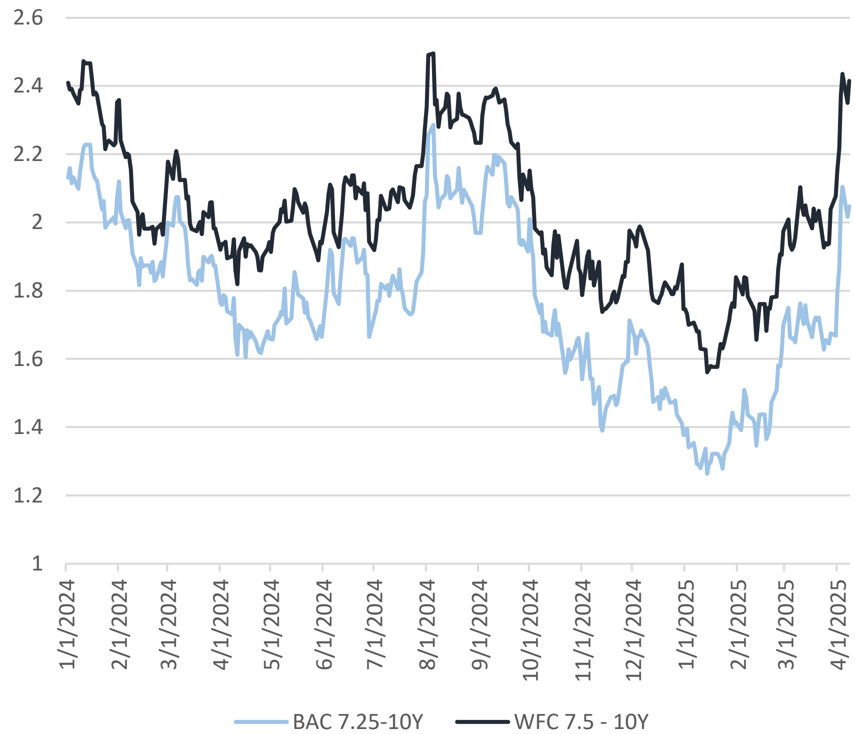
Source: GSR Research, Bloomberg

BAC 7.25 & WFC 7.5 Convert Preferred Price Trend ($1000 Par)



BAC 7.25 & WFC 7.5 Convert Preferred Yield Trend (Stripped Yield)

BAC 7.25 & WFC 7.5 Convert Preferred Stripped Yield-10Y Treasury Spread Trend



IMPORTANT DISCLOSURES