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World Bank to Sell New Debt Security, Boost Borrowing

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The World Bank said it will offer a new type of debt security in the U.S. whose maturity can be negotiated by investors at the time of purchase.

The bank also said it will increase its borrowing for the year ending June 30 by $1 billion to $10.6 billion and will initiate an insured currency and interest-rate swap program with Aetna Casualty & Surety Co.

The new securities, rated triple-A, will be called "continuously offered longer-term securities," or Colts. They will have fixed interest rates and maturities from three years to 30 years or more, the agency said. The bank said it may later offer floating-rate and zero-coupon securities.

The initial Colts program is for $500 million, said Eugene H. Rotberg, treasurer of the World Bank. The bank expects the securities to go on sale within two weeks through Goldman, Sachs & Co., Merrill Lynch Capital Markets, Salomon Brothers Inc. and Shearson Lehman Brothers Inc. The Colts are primarily targeted to institutional investors.

"It's basically an extension of the commercial paper concept out to the maturity of long-term bonds," Mr. Rotberg said. Debt securities with maturities of two to five years are already widely sold.

Under the swap program, Aetna Casualty will cover the financial risk on companies with single-A and double-A ratings that engage in currency and interest-rate swaps with the World Bank. Aetna Casualty is a subsidiary of Aetna Life & Casualty Co., based in Hartford, Conn.

The swap program will effectively enhance the credit quality of the World Bank's potential swap partners, allow the agency to do business with many more parties and reduce the cost of swaps, Mr. Rotberg said. Currently, the World Bank, one of the biggest users of swaps, deals only with triple-A-rated parties and major international banks in swap transactions.

An interest-rate swap is a transaction that allows a borrower with a fixed-rate debt obligation to exchange it for a floating-rate obligation of another borrower, and each exchanges the other's credit risk.

A currency swap allows debt in one currency to be converted into debt in another. Multinational corporations and supranational agencies such as the World Bank often use swaps to lower borrowing costs and eliminate undesirable foreign exchange exposures. Swaps can also help borrowers obtain funds in markets where they face regulatory impediments or where they may have already borrowed a lot of money and don't want to hurt their chances to borrow more in the future.

Mr. Rotberg said that the program—the first time a private insurer has agreed to insure a counterparty on swaps—could be "a precursor for a substantially expanded, liquid swap market." Last year, the swap market ballooned to about $200 billion, bankers estimate.

Because many highly rated borrowers decline to exchange risk directly with lower-rated entities, major commercial banks often act as intermediaries, effectively guaranteeing the swap commitments. The World Bank's new program essentially would replace a commercial bank with Aetna Casualty, which has a triple-A credit rating.