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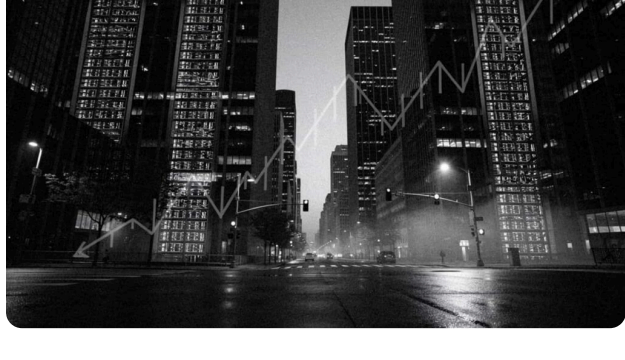
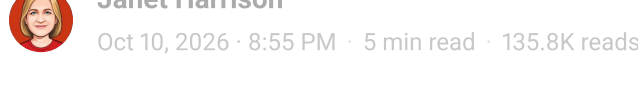
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Banks are now trying to offload the AI data center debt they just underwrote

of Morgan and Wells are part of the group that has spent more than six months trying to distribute \$38 billion in construction debt tied to a Texas and Wisconsin data center project leased to Oracle.



JP Morgan, Morgan Stanley, SMBC and MUFG are quietly shopping pieces of the AI debt pile they helped build, a sign the lenders closest to the money have started hedging their own bet.

six months ago, banks were racing each other to underwrite data center loans tied to Oracle, Meta and the rest of the AI buildout. Now some of the same banks are trying to get that debt off their books. JPMorgan, Morgan Stanley, SMBC and MUFG have been exploring significant risk transfers, according to a report from the Financial Times. These are deals that let a bank keep a loan on paper while shifting its riskiest slice to outside investors. The banks are doing this because they are bumping up against internal limits on how much AI-linked exposure any one lender can hold.

One case shows how stuck this has gotten. A group of banks including JPMorgan and MUFG has spent more than six months trying to distribute \$38 billion in construction debt tied to a Texas and Wisconsin data center project leased to Oracle, Bloomberg has reported. Some lenders are now willing to sell pieces of it to non-bank buyers at a discount, just to move it. Six months is a long time to sit on debt nobody wants to hold forever.

Matthew Moniot, co-head of credit risk sharing at Man Group, told the Financial Times the deal sizes involved are "out of scale to anything we've thought about, ever." That is not a hedge-fund manager talking down a trade he wants no part of. It is someone whose job is pricing exactly this kind of risk, saying the numbers no longer fit any model he has used before.

Oracle is the clearest tell. Its five-year credit default swaps, the cost of insuring against the company defaulting, climbed to around 151 basis points in early October, levels last seen in 2009, according to market data cited by Bloomberg. S&P had already cut Oracle's credit rating to BBB-, a single notch above junk, back in July. The company is reportedly targeting more than \$40 billion in additional debt and equity this fiscal year. That is on top of the \$18 billion in bonds it sold in a single day last September, and the money is needed to keep funding its Texas, Wisconsin and New Mexico sites.



Oracle Sues Wisconsin Over A \$7 Billion Data Center Collateral Bill

Oracle sued Wisconsin's Public Service Commission over a rule that could force it to post more than \$7 billion in collateral for its Port Washington data center campus. The fight helped push S&P to cut Oracle's credit rating to BBB-, one notch above junk, as the company's AI spending outpaces its cash flow. - **Oracle Wisconsin data center collateral dispute - utilities regulator \$7 billion lawsuit**

Demand for that paper has thinned out, too. Bonds from Alphabet, Amazon, Meta, Microsoft and Oracle now trade at a premium to similarly rated non-AI corporate debt. Order books for their offerings have shrunk from roughly five times the amount on sale back in February to under two times by July, Bloomberg has reported. That is the difference between a bond that sells itself and one a bank has to work to place.

None of this is happening in isolation. The 10-year Treasury yield hit 5.304% this month, its highest since 2002, after a \$39 billion auction cleared at 5.30%, the highest auction yield since 2000. The Federal Reserve's own September meeting minutes named AI-related corporate borrowing as a contributor to that move. Capital Economics argues the bigger driver is plain old inflation and government deficits, not tech company bond sales. Whoever is right about the cause, the effect is the same for anyone trying to finance a data center right now: the risk-free rate they are borrowing against just got a lot more expensive.

they are confident in. They sell down debt when they are worried about concentration, which is exactly what "approaching internal limits" means in plain English: too much of this bank's balance sheet is now one bet on one sector holding up. Spreading \$120 billion of AI infrastructure spending across special purpose vehicles was supposed to make that risk easier to swallow. That is the structure Oracle, Meta, xAI and CoreWeave have all used to keep debt off their own balance sheets.

The investors who still want in have gotten pickier about where. Capital is rotating toward data

credits, Bloomberg has reported. That is exactly why CoreWeave-leased paper prices at 7.00% to 9.875%, against the 5.70% to 7.875% that hyperscaler-leased bonds command, per bond market data compiled by CCIR. A smaller, less capitalized AI infrastructure company trying to raise debt next quarter is now competing for the same nervous pool of lenders as Oracle. Except without Oracle's balance sheet or its existing customer base to point to.

That's the part of this story that does not show up in a single day's stock move. The AI boom still runs on the assumption that credit stays open indefinitely at reasonable terms. Six months of a bank struggling to sell \$38 billion in loans is the clearest evidence yet that assumption is being tested in real time, not in some theoretical downturn still years away.

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Bond investors are starting to say no to the AI debt binge

Oracle's five-year CDS spread hit 203 basis points, an 18-year high, after S&P cut its rating to BBB-, while Meta's latest bond drew a third less investor demand than its sale a year earlier. - **bond investors concerned about AI infrastructure debt - hyperscalers facing credit market skepticism over AI spending**

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Janet Harrison has over 16 years experience in the financial services industry giving her a vast understanding of how news affects the financial markets, and an early adopter of blockchain technology and digital currencies. Janet is an active holder and trader spending the majority of her time analyzing blockchain projects, reports and watching new and upcoming projects and other initiatives in the industry. She has a Masters Degree in Economics with previous roles counting Investment Banking.

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