

Bond Case Briefs

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Bond Insurer MBIA Sues Banks Over Defaulted Puerto Rico bonds.

Aug 8 (Reuters) – Bond insurance company MBIA Inc sued several financial institutions on Thursday over their role in underwriting billions of dollars of Puerto Rico bonds that eventually went into default.

The lawsuit filed in superior court in San Juan claimed the banks “inflicted a financial tragedy” on the now-bankrupt U.S. commonwealth by urging it to issue “unsustainable” debt.

“That debt bankrupted the commonwealth and its agencies while the banks enriched themselves through massive fees,” the lawsuit stated.

Puerto Rico filed for bankruptcy in 2017 to restructure about \$120 billion of debt and pension obligations.

According to the lawsuit, major banks underwrote more than \$66 billion of bonds issued between 2001 and 2014 by Puerto Rico and its agencies, earning hundreds of millions of dollars in fees. The defendants are: UBS Financial Services Inc, UBS Securities LLC, Citigroup Global Markets Inc, Goldman Sachs & Co LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co LLC; Merrill Lynch, Pierce, Fenner & Smith Inc; RBC Capital Markets LLC, and Santander Securities LLC.

MBIA argued that these underwriters failed to do their due diligence on Puerto Rico bonds, which led to disclosures that were “materially false or misleading” and upon which its unit, National Public Finance Guarantee Corporation, relied upon when it decided to insure the debt.

A request for comment from J.P. Morgan was not immediately answered. Representatives of the other banks declined to comment on the lawsuit.

National insured more than \$11 billion of Puerto Rico debt. Subsequent defaults led the insurer to make as of July 1 over \$720 million in claims payments that the lawsuit seeks to recover in damages from the banks.

The same banks were sued by Puerto Rico’s federally created fiscal oversight board in May for allegedly aiding and abetting the island’s “clearly insolvent” government to issue debt.

(Reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan Editing by Matthew Lewis)