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Moody’s Views Addition of Bond Insurers for Prepa RSA as ‘Significant Progress’

Credit-rating agency points to uncertainties in outcome of Puerto Rico utility restructuring plan

SAN JUAN — The addition of two monoline bond insurers to the Puerto Rico Electric Power Authority’s (Prepa) restructuring support agreement (RSA) represents “significant progress” toward completion of the public corporation’s debt restructuring process and transformation, including averting the possibility of the utility being forced into receivership, credit rating agency Moody’s Investors Service said in a report Tuesday.

The island’s Financial Oversight and Management Board (FOMB) announced Monday that, together with the Fiscal Agency and Financial Advisory Authority (Aafaf by its Spanish acronym) and Prepa, it reached an agreement with bond insurers Syncora Guarantee Inc. and National Public Finance Guarantee Corp. to join the RSA that certain Prepa bondholders and Assured Guaranty Corp. reached earlier this year.

“The addition of national and Syncora to the RSA demonstrates further progress toward Prepa’s debt restructuring and a subsequent emergence from bankruptcy,” Moody’s report states. “As part of this agreement, National and Syncora agreed to drop their previous litigation seeking a court motion to appoint a receiver for Prepa.”

Moody’s notes that the agreement does not change the economic terms of the RSA announced in May, which among other things, calls for existing bondholders to exchange their bonds for new securitization bonds that will be issued by a “new special purpose vehicle” that is separate from Prepa.

The debt service on the new securitization bonds will be covered with additional revenues raised with a “transition charge” on Prepa customers.

With the addition of the two bond insurers, the RSA has the approval of about 90 percent of the uninsured bonds and all of Prepa bond insurers, which exceeds the minimum 67 percent threshold needed for approval. Nevertheless, the rating agency cautions that completion of the debt restructuring process is still subject to a number of conditions, including approval from “the court overseeing the bankruptcy as well as the approval of the legislature.”

Moreover, Moody’s states that “there remains a high degree of uncertainty about whether this restructuring plan can or will be implemented,” noting the issue of “affordability” of the agreement for Puerto Rico’s “struggling economic base.”

In fact, many economists and consumer advocacy groups have warned that the RSA is a sweet deal for Wall Street banks but bad for Puerto Ricans, who will end up seeing significant hikes to their utility bills. An independent analysis by the Institute for Energy Economics & Financial Analysis (IEEFA) has projected lower rates for only a short-term basis, with increases down the road.

Puerto Rico Manufacturers Association President Carlos Rodríguez on Wednesday reportedly called on Gov. Wanda Vázquez and the FOMB to reveal the charges that would be included in Prepa customers' bills as part of the RSA, noting that the effects of such increases could be detrimental to industries on the island. It would also hamper efforts to attract business to the island, he added.

IEEFA and other organizations have questioned the legality of $5 billion of the Prepa debt in question. MBIA Insurance Corp. and its National Public Finance Guarantee Corp. had filed a lawsuit, citing flaws and conflicts of interest plaguing the $8.3 billion Prepa restructuring deal.

The Moody's report states that "there is the potential for additional litigation as other creditors, including the remaining unsecured creditors, might seek to challenge the settlement in court."

The rating company maintains a classification of "Ca" with a negative outlook on Prepa debt. The rating is given to debt that is "highly speculative and likely in, or very near, default, with some prospect of recovery in principal and interest." Meanwhile, Moody's rating for National Public Finance is "Baa2," or moderate credit risk, with a stable outlook.

Execution of the RSA would represent the third debt exchange by Puerto Rican entities after the court approved settlements for the Government Development Bank in November, and the Puerto Rico Sales Tax Financing Corp. (Cofina by its Spanish acronym) in February.

William C. Fallon, chief executive officer of National Public Finance Guarantee, said that following the Cofina transaction earlier this year, it is "a step closer to resolving all of National's Puerto Rico exposure."

"We look forward to working cooperatively with the Government of Puerto Rico, the Oversight Board and other creditors on the closing of this transaction, and to restructuring our remaining exposure to the island," Fallon said in a statement to Caribbean Business, in which he noted that the RSA "provides a blueprint for the restructuring of our insured Prepa bonds."

The Prepa RSA before the bankruptcy court covers $8.26 billion of debt. A hearing on the RSA is scheduled for Oct. 30.

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By José Alvarado Vega on September 11, 2019