

Bond Case Briefs

Municipal Finance Law Since 1971

WSJ: Puerto Rico Power Bonds Rally on Loan-Delay Deal.

Puerto Rico Electric Power Authority bonds rallied on Friday after the cash-strapped utility announced a deal with creditors to delay loan payments into next year while working on a voluntary plan to revamp its business.

The authority, known as Prepa, postponed payments on \$671 million it owed banks on lines of credit through the end of March, while committing to appoint a chief restructuring officer by Sept. 8 and complete a five-year business plan by Dec. 15. Prepa said the agreement will enable it to use \$280 million held in its construction fund to pay expenses and capital improvements. The authority had faced a deadline Thursday to extend the loans, which are used to buy fuel for its generators.

Some investors cheered the news, with the price of some bonds rising almost 10%. A \$1.4 million block of Prepa bonds maturing in 2035 traded Friday at 53 cents on the dollar, up from the 48.25 cents on the dollar where a similar-size chunk traded earlier this month. Yields went to 11.063% from 12.096%.

"It's definitely rallying based on the lines of credit that were extended," said Tim McGregor, director of municipal fixed income at Northern Trust, whose team oversees \$23 billion in municipal bonds. "It's a large move for a regular municipal bond, but this bond's been experiencing a lot of volatility."

Market experts said the authority's deal with creditors would buoy the rally in municipal bonds overall this year, given that headlines surrounding any contentious restructuring could have scared mom-and-pop buyers away from the larger \$3.7 trillion market. Municipal bonds have so far returned 6.8% this year, according to data from Barclays.

"The contagion risk to the muni market potentially emanating from Puerto Rico is more or less off the table for this year, and is really increasing a municipal rally which we already had anyway," said John Miller, co-head of fixed income at Nuveen Asset Management LLC, which oversees about \$90 billion in municipal bonds.

Prepa is at the vanguard of Puerto Rico's long-running financial difficulties. The agency is seeking cash to fund operations and pay lenders, even as the commonwealth struggles with high unemployment and a weak economy.

Puerto Rico lawmakers in June approved legislation allowing some public agencies, including the island's power, water and transportation authorities, to restructure their finances. Those three agencies have almost \$20 billion in debt, according to estimates from Barclays PLC. The law doesn't apply to Puerto Rico's general obligation or sales-tax debt.

Puerto Rico has about \$73 billion in total debt, which is widely held by mutual funds and individuals and some analysts worry its problems could cause losses for investors nationwide. The price of some bonds from the power authority fell as low as about 37 cents on the dollar and some were trading before Thursday's extension at about 49.5 cents on the dollar.

Overhauling the island's public corporations has become a priority for the administration of Gov. Alejandro García Padilla as it tries to restart the economy, eliminate budget deficits and reassure investors that the U.S. commonwealth's fiscal position is improving.

A report by the Federal Reserve Bank of New York last month recommended strengthening the performance of the island's large, heavily indebted public corporations. "For any financial reform agenda to be successful, it must confront this issue head-on," the report said.

Mr. McGregor said trading Friday was likely being driven by hedge funds, and that his group doesn't own Puerto Rico debt. Mr. McGregor said Puerto Rico still has too much debt versus revenue, for his firm to step back into Puerto Rico bonds.

The agreements announced Thursday "buys them some more time, and when they are struggling like they are, time is an asset they needed for sure," he said.

By AARON KURILOFF And MIKE CHERNEY
Aug. 15, 2014 2:53 p.m. ET