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Insurers Build Market Share as Detroit Shows Value: Muni Credit.

Municipal bond insurers are capturing the most market share since 2009 as Detroit's bankruptcy and Puerto Rico's struggles underscore the value of the coverage to investors in the $3.7 trillion market.

About 5.2 percent of the $248 billion in munis issued this year through September carried insurance, up from 3.2 percent in 2013 and the highest in five years, data compiled by Bloomberg show. Before the financial crisis cost insurers their top ratings amid losses on guarantees of subprime-mortgage debt, more than half the market had the backing.

The coverage has proven its worth in the past year as insured bonds from Detroit and Puerto Rico issuers retained their value while uninsured debt sank. In a sign of the revival, MBIA Inc. (MBI) said yesterday that it hired muni analyst Tom Weyl from Barclays Plc.

"Detroit and Puerto Rico have both shown the marketplace that there's value in solid bond insurers," said Rick Taormina, head of muni strategies in New York at J.P. Morgan Asset Management, which oversees $53 billion in local debt. "You could start to see a movement towards 10 to 15 percent of bonds insured over an economic cycle."

Weyl Hire

Weyl, formerly director of muni research at Barclays in New York, will start by year-end as managing director and head of new business development at National Public Finance Guarantee Corp., MBIA's muni-bond insurance unit in Purchase, New York.

He's the latest muni analyst to bet on an insurance revival. John Hallacy last year joined Assured Guaranty Ltd. (AGO) as managing director of public finance after stepping down as Bank of America Merrill Lynch's head of muni research.

Weyl didn't respond to a voicemail left at his Barclays office number. Mark Lane, a spokesman at Barclays in New York, declined to comment.

In August, National backed its first new bond offering since 2008, according to Bloomberg data. It guaranteed portions of a $1.8 billion deal from the Michigan Finance Authority on behalf of the Detroit Water and Sewerage Department. Assured Guaranty Municipal Corp. also backed some of the debt.

National Benefit

National's backing drove down yields on the Detroit bonds. A portion due in July 2017 with National insurance priced to yield 1.24 percent, while uninsured debt with the same maturity yielded 1.49 percent.

Investors expected National to back new bonds after Standard & Poor's raised its rating in March to AA-, fourth-highest and one level below units of Assured and Build America Mutual Assurance Co., the market's primary insurers.

"Events over the past year have helped to refocus the market on some of the important benefits of Assured Guaranty bond insurance," Robert Tucker, head of communications and investor relations in New York, said by e-mail. "Those benefits include greater price stability and improved market liquidity, along with the certainty of timely payment of debt service and our ability to work with an issuer to resolve its difficulties."

In one example, Puerto Rico general obligations with Assured's protection and due in July 2024 traded this week at 100 cents on the dollar, while debt with the same maturity that doesn't have insurance traded Sept. 26 at 73 cents on the dollar.

Storytellers Sought

S&P said in March that insurers may double their market share to 8 percent of issuance this year. Municipal Market Advisors, a Concord, Massachusetts-based research firm, said in the same month that 5 percent was a probable target.

As soon as next week, Stockton, California's public-financing authority plans to issue $71 million of wastewater revenue debt with insurance from Build America Mutual, offering documents show.

The city, which sought bankruptcy protection in 2012, has treated enterprise securities such as the water debt as unimpaired, meaning investors will get paid in full, bond documents show. S&P rates the underlying bonds A-, seventh-highest, while the Build America backing boosts the grade to AA, third-best.

National will probably guarantee more new bond sales, and the competition among three companies instead of just two will further boost insured volume, said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia.

"When National attracts somebody like Tom Weyl, much like Assured brought in John Hallacy, that's part of an overall effort to get out and tell their story," he said. "For insurers, their challenge is marketing now. They have a good story: Stockton, Detroit and other distressed situations have seen investors benefit from having insurance."

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By Brian Chappatta Oct 2, 2014 5:00 PM PT

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Alan Goldstein