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Muni-Bond Insurance Actually Pays Off, Report Says.

The much-maligned bond-insurance industry has one thing going for it: The insurers pay up most of the time.

That's the conclusion of a new report, planned to be released Thursday, from Kroll Bond Rating Agency. Analysts at Kroll identified 29 cases of insured municipal-bond defaults from 2008 to the present, and said the insurers are paying investors in full and on time in 26 of those cases.

In only three instances, certain bond insurers missed payments or did not pay in full. But those instances are high-profile cases, including Detroit, Jefferson County, Ala., and a struggling monorail system in Las Vegas.

"We believe that these defaults, because they were so highly publicized, have overshadowed a generally favorable record on muni bonds by the guarantors," said Karen Daly, senior managing director at Kroll, in an interview.

Before the financial crisis, roughly 50 percent of new municipal bonds carried bond insurance, allowing issuers to get lower interest rates because the insurers had high credit ratings. That figure fell precipitously, however, as the insurers faced losses on mortgage-backed securities during the crisis and were downgraded by credit rating firms.

About 6% of new municipal bonds carried insurance last year, according to Thomson Reuters data. Some investors have said that whether a bond carries insurance factors little into their investment decisions.

The Kroll report, however, indicates that bond insurance has value. The firm gives ratings to two affiliates of Assured Guaranty Ltd. AGO -0.61%, as well as National Public Finance Guarantee Corp., a subsidiary of MBIA Inc. MBI -2.05% All are rated double-A-plus, the second highest grade.

"What we're trying to explain to the markets is that the record of bond insurers paying municipal claims is in fact better than perception," Ms. Daly said.

In its report, Kroll defined a default as an instance where an issuer missed a principal or interest payment, and did not include draws on reserve funds or breaches of certain financial covenants.

Kroll said "partial payment" was made by Financial Guaranty Insurance Co., or FGIC, and Syncora Guarantee Inc. in Jefferson County, by FGIC in Detroit and by Ambac Assurance Corp. in connection with the Las Vegas monorail project. Other insurers, however, made full payments in the Detroit and Jefferson County situations.

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