# [Bond Case Briefs]

*Municipal Finance Law Since 1971*

---

## [Puerto Rico Path to Easing Cash Crunch Hinges on Insurer Demands.]

The key to whether Puerto Rico can ease its cash crunch may depend on bond insurers that protect investors against losses.

The junk-rated U.S. territory wants insurers such as Assured Guaranty Ltd. and MBIA Inc. to guarantee some of the $2.9 billion of bonds that it plans to sell to stave off insolvency. Insuring some of the securities would lure investors other than hedge funds, lower borrowing costs, and generate more proceeds that Puerto Rico can use to replenish its coffers.

The problem is that the insurers' willingness to participate in the new deal depends on the amount of losses they're forced to take on $2.6 billion of debt issued by the island's power authority that they already back, according to Melba Acosta, president of Puerto Rico's Government Development Bank. Bond insurers pledge to pay investors if a borrower defaults on guaranteed debt or reduces insured obligations through negotiations.

"This is sort of their last shot at finding liquidity," said Daniel Hanson, an analyst at Height Securities LLC, a Washington-based broker dealer. If Puerto Rico is able to sell the new bonds "they need to get it done at enough size to avoid coming back to market again."

**Restructuring Plan**

Prepa, as the electric utility is known, submitted a restructuring plan to creditors last week that asks ratepayers, employees, bondholders and management to share the burden of the agency's recovery. It didn't disclose potential investor losses. Also last week, the insurers considered blocking an extension of an agreement that kept talks between creditors and the utility out of court, people with knowledge of the talks said at the time.

The planned bond sale, to be backed by oil taxes, may be a more difficult sell without the insurers. Proceeds would repay money the highway authority owes the GDB, which lends to the commonwealth and its localities. The bank will run out of cash by Sept. 30 without the deal, according to Puerto Rico financial documents.

Insurers have proposed covering about $600 million of the transaction "in return for being guaranteed that their principal debt will not be reduced as part of the restructuring of Prepa," Acosta said in Spanish to the House Treasury Committee on May 30. Without insurance, the interest rate on the bonds "could be extremely high," she said.

**Funds' Demands**

Hedge funds also have demands. They want a portion of the oil-tax bonds to be subordinate in payment and for the GDB to hold about $800 million of those securities, Acosta said. That would mean less proceeds to help relieve the island's cash crunch, she said. The funds are also asking for the debt to be immediately paid in full with future interest in the event of a default, Acosta said.

A group of hedge funds is negotiating to buy the majority of the planned bonds at a discount, according to two people with direct knowledge of the discussions. The group wants insurers to back part of the deal at par, said the people, who requested anonymity because the talks are private. Debt sold at a discount produces less cash for the issuer.

Russ Grote, a Washington-based spokesman for the hedge-fund group, declined to comment, as did Ashweeta Durani at Hamilton, Bermuda-based Assured, Kevin Brown at Armonk, New York-based MBIA, and David Millar, a spokesman for the GDB in New York.

Using bond insurance, "is going to lower the coupon payments that Puerto Rico has to make," said Hanson at Height Securities. "It's going to reduce the amount of money that's going to debt service and that's ultimately what people care about."

Units of Assured and MBIA have been in talks with the commonwealth about insuring some of the new debt, according to three people familiar with the discussions.

**Discount Signal**

Puerto Rico general obligations maturing in July 2035 traded Wednesday at an average of about 81.75 cents on the dollar, according to data compiled by Bloomberg.

Insurers cover about $14 billion of the $72 billion of debt that Puerto Rico and its agencies owe, according to the companies' websites. The island's securities have traded at distressed levels for about two years.

Prepa may not have enough money for a $416 million bond payment it owes July 1. The trustee for the securities told the insurers that debt reserves are short $150 million, according to a person with direct knowledge of the matter who requested anonymity because the talks are private. Insurers cover most of the bonds maturing that day, data compiled by Bloomberg show.

"Multiplying their exposure to the commonwealth and to their agencies may not be in the best interest of their shareholders," said Phil Fischer, head of municipal research at Bank of America Corp. in New York.

**Bloomberg**

by Michelle Kaske & Laura J Keller

June 9, 2015 — 9:01 PM PDT Updated on June 10, 2015 — 6:03 AM PDT