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Puerto Rico Worries Put Focus On Municipal Bond Insurers.

Calls by Puerto Rico Gov. Alejandro Garcia Padilla to restructure the island's $72 billion debt load is putting renewed focus on whether insurers who back billions of dollars' worth of Puerto Rico bonds can absorb the losses in the event of a default.

The situation threatens to derail what has been a modest comeback for municipal-bond insurers, who suffered losses during the 2008 financial crisis after guaranteeing risky mortgage-backed securities. Nearly 60% of new municipal bonds sold in 2005 carried bond insurance, according to Thomson Reuters data, a figure that plunged to 3.6% in 2012 before recovering to 6.6% so far this year.

Investors are growing increasingly concerned. The stock prices of two of the biggest insurers, Assured Guaranty Ltd. and MBIA Inc., have fallen 12% and 28%, respectively, since Friday's close as analysts fret over whether the insurers can make good on their promises.

Bond insurers agree to make scheduled principal and interest payments if the municipality that sold the bond fails to pay. Investors expected Puerto Rico to have trouble paying bonds from some of its most stressed public authorities, a situation that analysts said appeared manageable for the insurers. But Mr. Padilla in a speech Monday said a more comprehensive restructuring plan is needed that could impact more of Puerto Rico's bonds.

As of March 31, Assured Guaranty backed roughly $10 billion in Puerto Rico principal and interest payments, and MBIA's National Public Finance Guarantee Corp. unit backed another $10 billion, according to financial documents from the insurers. Assured says it has $12 billion in claims-paying resources and National has about $4.9 billion, according to financial documents, though investors are likely to recover some value from Puerto Rico even if there is a restructuring.

The insurers also would have years to make the payments, given that some of Puerto Rico's bonds don't mature for decades. Still, significant losses could lead to fresh downgrades of the insurers' credit ratings, which would make it more difficult for them to write insurance policies on newly issued bonds.

In a research note last week, before Mr. Padilla's most recent comments, analysts at Barclays said that present-value losses of $750 million would "materially damage" MBIA and "potentially cause rating downgrades and diminished ability to write new business." Across two of Assured's subsidiaries, the analysts put the combined figure at $1.75 billion.

Mikhail Foux, head of municipal strategy at Barclays, said potential losses are now "more likely" to hit those numbers given the recent shift in Puerto Rico's stance.

Earlier in June, Moody's Investors Service said a "widespread, systemic default" could have a "significant adverse impact on the credit profiles and ratings" of some insurers.

Previously, "the governor was stressing the importance of maintaining access to the capital markets and paying debts when they come due," said James Eck, vice president and senior credit officer at Moody's. "It appears that maybe that desire is no longer feasible."

Despite the concerns about Puerto Rico, Standard & Poor's Ratings Services on Monday left unchanged the double-A ratings on Assured's subsidiaries and the double-A-minus rating on National. Insurers including Assured and National are also making payments in full on bonds tied to Detroit's bankruptcy, according to a report earlier this year from Kroll Bond Rating Agency.

Bond investors are still putting some faith in insurance, as Puerto Rico bonds that are backed by Assured and National are trading at higher prices than those on similar uninsured debt. Clark Wagner, director of fixed income at First Investors Management Co., said Tuesday that his firm sold a Puerto Rico bond insured by National and got nearly 100 cents on the dollar.

Puerto Rico bond prices have fallen broadly this week, with some bonds down roughly 11%.

Mr. Wagner said his firm sold the bond because he doesn't "want to go through this whole [restructuring] process," even though he expects investors that own the bond will ultimately get repaid in full.

THE WALL STREET JOURNAL

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June 30, 2015 5:52 p.m. ET

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