

# Bond Case Briefs

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## Puerto Rico Insured Debt at 76 Cents Lures Muni Buyers to Island.

After Puerto Rico bonds tumbled by the most in at least 17 years, Wells Capital Management, MacKay Shields and Belle Haven Investments sifted through the wreckage and decided it was time to buy.

They're not expecting an end to the fiscal crisis gripping the junk-rated Caribbean island. They're betting insurers can stand by promises to cover principal and interest bills if Puerto Rico reneges on its debt.

Governor Alejandro Garcia Padilla's announcement last week that the island can't afford to repay what it owes sparked a rout that caused some insured Puerto Rico securities to trade for as little as 76 cents on the dollar. Prices rebounded as investors snapped up the debt, speculating that a widespread default won't wipe out the biggest guarantors.

"It's one of these classic muni headline issues: A lot of people want to be the first out of the door and sell theirs first," said John Loffredo, who helps oversee \$13 billion of munis at MacKay in Princeton, New Jersey. "We've been actively participating in AA rated insured muni bonds that are triple tax-exempt that we believe are mispriced."

The escalation of Puerto Rico's debt crisis last week rattled mutual and hedge funds that have parked money in the island's debt because it's tax-exempt nationwide and offered yields higher than other investments.

### **\$72 Billion**

The commonwealth and its agencies owe \$72 billion after years of borrowing to paper over budget shortfalls. Garcia Padilla said he wants to negotiate with investors to delay payments that are draining the government's coffers.

Prices on some general obligations backed by a unit of Assured Guaranty Ltd. slid 7 cents on June 30 to an average of 85 cents on the dollar, pushing the yield to 6.4 percent. The same day, sales-tax debt backed by the company plunged 14 cents to 80 cents, after trading for as little as 76 cents. The securities pared losses by July 2, with the general obligations trading for 88 cents and the sales-tax bonds for 87 cents.

Uninsured general obligations due in 2041, by contrast, trade at about 59 cents on the dollar.

Assured Guaranty is rated AA, the third-highest investment grade, by Standard & Poor's, which affirmed the grade last week. Comparably rated 30-year municipal bonds yield about 4 percent.

Bond insurers pledge to pay interest and principal on time if a borrower defaults. That means that even if Puerto Rico officials are able to postpone debt payments, holders of insured securities won't be affected as long as the companies have sufficient funds.

## **Insurers Stumble**

Shares of Assured Guaranty and rivals MBIA Inc. and Ambac Financial Group Inc. fell last week amid speculation about the fallout from Puerto Rico. CreditSights Inc. issued a report Wednesday questioning Ambac's claim that it had \$4.8 billion available to cover Puerto Rico losses. The company said its figures are accurate.

Belle Haven and Wells Capital purchased shorter-dated insured bonds because there's greater certainty that the guarantors will have enough cash to weather a default.

Bonds due in less than three years were "down way too much," said Lyle Fitterer, who oversees \$38 billion of munis at Wells Capital in Menomonee Falls, Wisconsin. "We have confidence in the claims-paying ability of the monolines in that type of time horizon."

## **Cash Reserves**

Assured Guaranty and MBIA's National Public Finance Guarantee Corp. are each on the hook for about \$10 billion of Puerto Rico principal and interest payments, though that would be spread over the next three decades. Ambac has backed \$2.4 billion of commonwealth debt.

Investors "can rely on our \$12 billion in claims-paying resources and unconditional and irrevocable guaranty of the scheduled payment of principal and interest when due," Robert Tucker, head of investor relations for the Hamilton, Bermuda-based Assured Guaranty, said in a statement.

Kevin Brown, a spokesman for Purchase, New York-based MBIA, said its National unit "will ensure that its policyholders will continue to receive all of their scheduled interest and principal payments on time and in full."

Ambac Interim Chief Executive Officer Nader Tavakoli said in a statement that "if it were to become necessary, we are confident in our ability to pay timely principal and interest."

## **Pimco Waits**

The price declines still weren't enough to attract some investors. Pacific Investment Management Co. is steering clear of Puerto Rico debt until there's a restructuring plan in place and a strategy to grow the island's economy, said Joe Deane, New York-based head of munis for Pimco, which manages \$40 billion of state and local debt.

"Show me a solution and I'll show you the money," Deane said. "But until I can clearly see a path forward that would make that debt at whatever price viable, there's absolutely no number in my mind where I would necessarily buy."

Last week's rout echoed one from a year ago, after Garcia Padilla signed a law that would have let some public agencies restructure debt. The Assured-backed Puerto Rico general obligations that slid this week dropped to as low as 80 cents on the dollar in July 2014, only to rebound to 100 cents in less than two months. The law was struck down in court this year.

"I would expect over the coming weeks and months that the insured paper will stabilize," said Brian Steeves, who helps manage about \$3 billion of municipal debt at White Plains, New York-based Belle Haven Investments, which has been adding different Puerto Rico credits guaranteed by Assured.

## **Bloomberg**

by Brian Chappatta and Michelle Kaske

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