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Berkshire's Negative S&P Watch Hits Almost 1,000 Muni Bonds.

Municipal bonds from California to Puerto Rico may lose their second-best credit rating from Standard & Poor's after the company put Berkshire Hathaway Inc. and its core insurance units on a negative watch.

Berkshire Hathaway Assurance Corp. had the outlook on its AA+ rating cut Tuesday, and S&P began dropping its view of the 966 muni securities the insurer backs on Wednesday, according to data compiled by Bloomberg. Berkshire Chairman Warren Buffett got into the muni-bond insurance business in 2008, after the subprime mortgage market began to implode.

Bond insurance has been thrust into the spotlight in the \$3.6 trillion municipal market as Puerto Rico's fiscal crisis worsens. Berkshire, for its part, backs just 15 commonwealth securities, and as a secondary guarantor, meaning Buffett is on the hook only if the primary insurer can't pay, data compiled by Bloomberg show.

Berkshire's muni-bond unit has mostly shunned the market since 2009, when Buffett warned about swelling local pension liabilities and compared backing states and cities to insuring natural catastrophes.

"In both cases, a string of loss-free years can be followed by a devastating experience that more than wipes out all earlier profits," Buffett wrote in a letter as part of the 2008 annual report. "We will try, therefore, to proceed carefully in this business, eschewing many classes of bonds that other monolines regularly embrace."

Insurance Offer

In the same letter, Buffett said Berkshire offered to take over insuring the \$822 billion of bonds backed by the three largest guarantors, but was turned down. About three-fourths of its secondary-market business instead came by standing behind bonds that were already insured.

Other issuers that have outstanding bonds with a layer of insurance in addition to Berkshire include California, Chicago, Detroit's water system and New Jersey's transportation trust fund authority, data compiled by Bloomberg show.

Berkshire's muni unit is one of the insurers on some debt from Puerto Rico's electric power authority, highway agency and infrastructure financing borrower, Bloomberg data show. It also backs sales-tax bonds, known as Cofina. Some of the securities it guarantees traded this week at 118 cents on the dollar.

Buffett's parent company was put on CreditWatch Negative because of uncertainty around how it will fund its acquisition of Precision Castparts Corp. for about \$37.2 billion, S&P said Tuesday in a report.

Omaha, Nebraska-based Berkshire “is likely to use some of the capital resources available at its insurance companies,” the credit rater said.

Berkshire Hathaway Assurance’s AA+ rating is the highest of any bond insurer, with units of Assured Guaranty Ltd. and Build America Mutual Assurance Co. ranked one step lower.

Bloomberg

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