

Bond Case Briefs

Municipal Finance Law Since 1971

Bond Insurers Surge on Proposed 15% Puerto Rico Electric Losses.

Shares of the two biggest debt insurers rallied after Puerto Rico's Electric Power Authority reached an agreement with some bondholders on a restructuring plan that would impose a 15 percent loss on investors, less than some had projected.

Assured Guaranty Ltd. shares jumped 3.9 percent to \$25.76 at 11:57 a.m. in New York, the biggest increase since November 2014, while MBIA Inc. surged 11.9 percent to \$7.57. Both companies, which agreed to repay investors if the utility defaults on some securities, slid after Puerto Rico Governor Alejandro Garcia Padilla said in June that the Caribbean island couldn't afford to repay its debts.

Puerto Rico's power utility, known as Prepa, has been working with creditors for a year to restructure its \$8.3 billion debt load and modernize its plants. A group holding about 35 percent of Prepa's outstanding bonds agreed late Tuesday to accept a loss of about 15 percent to pare the agency's debt and reduce principal and interest payments by more than \$700 million over the next five years.

A recovery of 85 cents on the dollar "would represent a significantly less painful outcome for the insurers on their exposure to Prepa's debt than had been projected by many observers," Mark Palmer, an analyst at BTIG LLC, said in a research note Tuesday.

Moody's Investors Service had projected that investors would recoup between 65 percent and 80 percent of what they are owed.

Assured only consented to extend a forbearance pact until Sept. 18 to keep negotiations out of court. MBIA was the sole creditor to not renew that contract, according to a statement from Prepa.

Municipal-bond insurers are paid premiums to ensure that investors will receive principal and interest payments on time and in full. Under the agreement reached late Monday, the bondholders, who are traditional municipal investors and hedge funds, will exchange their securities for new debt repaid with a surcharge on the utility's customers.

Bondholders outside of that group may receive debt that pays interest at a rate of 4 percent to 4.75 percent, or convertible capital appreciation bonds with higher payouts.

MBIA's National Public Finance Guarantee Corp. had about \$2.1 billion in total debt service exposure to Prepa as of June 30, company filings show. Assured Guaranty's subsidiaries are on the hook for about \$1.2 billion of debt-service payments related to the electric agency, according to a company presentation.

Greg Diamond, a spokesman for MBIA, declined to comment in an e-mail Tuesday on the company's reason for not extending the forbearance agreement. Ashweeta Durani, a spokeswoman for Assured in New York, didn't have an immediate comment.

Bloomberg

Michelle Kaske and Brian Chappatta

September 2, 2015 — 9:25 AM PDT

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com