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Bond Insurers Balk at Puerto Rico Power Authority Deal.

The bond insurers, which include MBIA and Assured Guaranty, are worried about the implications for other commonwealth debt.

Talks between Puerto Rico's power authority and bond insurers that back its debt have stalled, highlighting the difficulties the U.S. commonwealth is facing as it negotiates with creditors.

Three months ago, bondholders and lenders agreed to accept losses of 15% as part of an agreement to swap old Puerto Rico Electric Power Authority debt for new bonds with more protections. The insurers are worried about the implications for other Puerto Rico debt and haven't signed on.

These talks between Prepa, as the power authority is known, and bond insurers including MBIA Inc. and Assured Guaranty Ltd. are at an impasse, according to people familiar with the situation. At least one of the insurers has expressed a reluctance to insure some of the new debt, according to one of the people.

The U.S. Supreme Court has agreed to consider whether Puerto Rico should be allowed to have laws permitting public agencies such as Prepa to restructure debts. That move has given Puerto Rico more leverage over its creditors, who must decide whether it makes more sense to strike debt-relief deals now or after the court decision, analysts and investors say. Neither Puerto Rico nor any of the island's local-government agencies have access to bankruptcy protections.

MBIA and Assured declined to comment on the status of the talks. The Government Development Bank for Puerto Rico said in a statement last week that negotiations "have been delayed by the unyielding attitude" of some creditors, highlighting the need for a legal bankruptcy framework.

Prepa, which has about $8 billion of debt outstanding, said Tuesday it had amended its agreement with bondholders to extend the deadline for the authority to reach a deal with bond insurers to Dec. 17. Prepa's bond trustee said in a filing this week it had $24 million to pay investors, who are owed almost $200 million at the beginning of January.

Bond insurers potentially have more to lose from a debt restructuring than mutual funds or hedge funds. Funds often have the opportunity to scoop up debt below face value and then in some cases can make a profit even in a default. Bond insurers can't sell their risk and don't want to set a precedent in which a utility, which could raise rates to pay debt, restructures instead.

Puerto Rico lawmakers in 2014 passed bankruptcy legislation, which was aimed at public agencies including the power, water and highway authorities. Those entities have around $20 billion in debt outstanding, including Prepa's $8 billion. Bondholders sued and lower courts blocked the law, sending Prepa and its creditors into negotiations without it.

A deal with insurers would mark one of the final steps toward completing the Prepa restructuring, by itself one of the largest in the history of the $3.7 trillion municipal-bond market. Puerto Rico officials have held up the Prepa talks as a potential model for other restructuring.

Yet after more than a year of talks, significant hurdles to a final agreement remain. Puerto Rico must pass separate legislation allowing the deal, requiring lawmakers to hold a special session. Also, the deal requires the new bonds to receive an investment-grade credit rating at a time when Puerto Rico's credit is junk.

"Prepa may indeed represent an unfortunate model for what is to come with other public corporation debts," wrote Matt Fabian, a partner at research firm Municipal Market Analytics, in a Monday report.

Sergio Marxuach, public policy director at the Center for a New Economy in San Juan, said the lengthy talks between Prepa and its creditors demonstrate the difficulty of reaching terms with investors without a legal process. Gov. Alejandro Garcia Padilla on Wednesday repeated his call for the U.S. Congress to grant Puerto Rico access to such a legal framework at a news conference in Washington.

Bankruptcy protections wouldn't be a panacea to Prepa talks, said Howard Cure, director of municipal research at Evercore Wealth Management. A negotiated agreement would help Prepa maintain access to borrowing, which it needs to convert antiquated facilities to natural gas in order to lower energy prices and stimulate the island's economy.

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