

Bond Case Briefs

Municipal Finance Law Since 1971

Ambac Shares Fall as Puerto Rico Moves to Default on Some Bonds.

Shares of bond insurer Ambac Financial Group Inc. fall as much as 4.2 percent after Puerto Rico Governor Alejandro Garcia Padilla said the commonwealth would default on some bonds insured by a company subsidiary.

Puerto Rico won't make a \$35.9 million payment due Jan. 1 on debt issued by the Puerto Rico Infrastructure Financing Authority and backed by federal excise taxes on rum produced on the island and sold in the U.S.

The island also won't make a \$1.4 million payment on Public Finance Corp. bonds. A \$357 million payment of interest due on Puerto Rico's general-obligation debt will be paid.

Garcia Padilla has warned for weeks that if forced to choose between paying creditors and paying for essential services, he would choose to keep residents safe and healthy. The commonwealth's constitution states that general-obligation bonds must be repaid before other expenses.

Ambac and Financial Guaranty Insurance Co. wrote to Padilla on Tuesday demanding that as much as \$94 million of rum-tax revenue already diverted from rum-tax bond be returned and plans for future claw-backs abandoned.

They said that the plan to divert rum-tax revenue pledged to \$1.9 billion of bonds issued by PRIFA violated the commonwealth's constitution as well as the takings, contracts and due process clauses of the U.S. Constitution.

The "pattern of activity is unacceptable," Nader Tavakoli, executive chairman of Ambac Assurance, and Derek Donnelly, a senior managing director at FGIC, said in the letter released Tuesday. The companies haven't filed a legal action.

Ambac didn't immediately respond to an e-mailed request for comment. FGIC spokesman Timothy Tattam declined to comment on Padilla's decision to default on the PRIFA bonds.

Shares of Ambac have declined 41 percent. This year. The stock fell 49 cents to \$14.48 at 1:35 p.m. in New York.

Bloomberg Business

by Martin Z Braun

December 30, 2015 — 11:12 AM PST