

# Bond Case Briefs

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## No Losses for Puerto Rico General Obligation Debt Seen by Height.

Proposed federal legislation that would help Puerto Rico restructure its \$70 billion of debt could lead to full repayment of general obligations, which would be a boon to bondholders and insurers, according to Height Securities.

A draft measure by House Republicans that has circulated on Capitol Hill would give a five-member federal control board the authority to oversee a reduction of the island's debts, instead of entrusting that to local officials, and empower it to sell debt on behalf of the island. With such a structure in place, losses on general obligations would be zero, and sales-tax bonds would be cut just 10 percent, down from earlier estimates of 10 percent and 45 percent, respectively, according to a report released Tuesday by Height, a Washington-based broker dealer.

"The key element of the bill is the limitations on debt restructurings, which should protect general obligation and Cofina bondholders," wrote Edwin Groshans, an analyst who tracks municipal-bond insurers at Height. The bill, the bulk of which has a 75 percent chance of becoming law, is "a positive for creditors as it creates a strong federal oversight board and protects bondholders vis a vis pensioners," he wrote.

The draft bill from the House Natural Resources Committee, which the panel plans to release publicly Tuesday, is the most comprehensive fix yet advanced by Congressional Republicans to help pull Puerto Rico from a crisis that's been building since June, when Governor Alejandro Garcia Padilla said its debts aren't payable. It allows for a court-overseen restructuring to force creditors to accept a deal, in contrast to the current consensual negotiations, though it doesn't specify how various bondholders would be treated.

Trading in Puerto Rico show that investors aren't anticipating that they'll be paid back on time and in full. The commonwealth's benchmark general obligations with an 8 percent coupon and maturing in 2035 traded Tuesday at an average 70.3 cents on the dollar, data compiled by Bloomberg show. Sales-tax backed debt due in 2042 traded Monday for 42 cents.

Ambac Financial Group Inc. would benefit the most from the legislation because it insures about \$7.3 billion of sales-tax debt service payments, according to Height. Overall, Ambac's losses from paying investors would decline by 26 percent, while MBIA Inc.'s would fall by 18 percent and Assured Guaranty Ltd.'s would drop 6 percent relative to the firm's moderate-loss scenario.

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