

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Bond Insurer Becomes First to Challenge Restructuring Plan.

Assured Guaranty sues oversight board over debt-cutting plan

A bond insurer looking to minimize losses on \$5.4 billion in Puerto Rico bond guarantees has fired the first legal volley following the U.S. territory's entry into court protection.

Assured Guaranty Ltd. Thursday sued Puerto Rico's federal oversight board, which one day earlier placed the ailing U.S. territory in what amounts to the largest ever U.S. municipal bankruptcy. The complaint, filed in federal court in San Juan, marks the first legal challenge to Puerto Rico's debt-cutting plan by creditors following the board's unprecedented action.

The insurer says the board overstepped when it ordered the payment of no more than \$787 million annually in debt service over the next decade. That sum, less than a quarter of the \$3.5 billion creditors are owed on average each year, is at the heart of a board-approved fiscal plan that forms the basis for restructuring negotiations.

Bond payments, education subsidies and pension spending were all cut in the plan, which the board approved last month after ordering more conservative economic assumptions that further diminished the surplus available for creditors.

The proposed financial overhaul, "unless totally recast, cannot possibly be permitted to serve as the basis for any lawful plan of adjustment," Assured said in a statement.

The board's petition under a court-supervised restructuring process known as Title III was meant to put the brakes on creditor litigation—outside of the bankruptcy-like process—seeking redress for past payment defaults. Assured filed its case in the Title III proceeding, which pits Puerto Rico against a number of hedge funds, mutual funds, insurance companies and retail investors holding its \$73 billion in municipal debt.

The Wall Street Journal

By Andrew Scurria

May 4, 2017 9:24 a.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com