Puerto Rico Electric Power Authority monoline insurer negotiations may hinge on a Government Development Bank bond
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A USD 267m tranche of **Government Development Bank for Puerto Rico** (GDB) debt may hold the keys to the **Puerto Rico Electric Power Authority** (PREPA) restructuring, said Andrew Gadlin, a research analyst at Odeon Capital, and Matt Fabian, a partner at Municipal Market Advisors.

"If they extend the USD 267m due on 1 December, not only can Puerto Rico get past their November trough, they can get past December," said Gadlin. "They potentially can get past the worst part of the year."

And if the Conway Mackenzie projections are correct, they could get all the way to May, Gadlin said. The commonwealth will fall short again on 30 June because of the 1 July payments.

How much of an impact an extension could have on the commonwealth is difficult to determine because financials are not up to date, said a trader. The GDB has not issued financials since FY13 so it's hard to know how much of an affect any change would have when it comes to denominations of USD 100,000 or smaller.

What ties the credits together is that the GDB bond is insured by **National Public Finance Guarantee Corporation**, said Fabian and Gadlin.

It is National's sole exposure to the GDB, however, National has about USD 1.4bn of exposure to PREPA, its largest exposure to the commonwealth's risks, according to research by *Debtwire Municipals*.

"The insurers from the beginning have been looking at their exposure to Puerto Rico as integrated," Fabian said. "Without National and the other monoline's participation it's hard to see any restructuring plan with PREPA getting much steam. To the extent PREPA is taking a hard line it will make National uninclined to do anything with its GDB maturity."

National exited the forbearing group of PREPA bondholders on 1 September, aspreviously reported. The next day the utility suggested a 15% haircut on the principal of bonds, as previously reported.

Fellow insurers **Assured Guaranty** and **Syncora Guarantee** exited the forbearing group of PREPA bondholders on 18 September, as previously reported. They insure USD 773m and USD 203m respectively, according to research by *Debtwire Municipals*. Earlier in the year, National sent a letter to the PREPA board of directors outlining potential litigation strategies, as previously reported.

One statement in the letter is that PREPA is contractually and statutorily obligated to raise rates.

National declined to comment for this article.

"It's a long shot that National and the insurers want to participate in a USD 0.15 haircut when their argument that PREPA should just raise rates is not unreasonable," Fabian said. "Were PREPA to raise rates and make sure all debt gets paid … it could even give PREPA fresh capital market access."

If the GDB maturity is extended, the bank will not be able to make it through the next four years without some sort of restructuring, Gadlin said. However if it is not, and the**Commonwealth of Puerto Rico** elects to default on it, it could be considered a violation of the commonwealth guarantee, the same security that protects the commonwealth's general obligation debt. The same guarantee is a secondary guarantee on a variety of other bonds, as previously reported.

"What happens in this bond could help shape everything that happens for PREPA, the GDBs and GOs," Gadlin said.

The USD 267m tranche of Series 1985 GDB bonds which matures on 1 December last traded in round lots on 10 September between 100.2 and 100.3 yielding 3.27% to 3.63%, according to Electronic Municipal Market Access. The underlying bonds were last rated CC by Standard & Poor’s on 14 July

by Maryellen Tighe