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Puerto Rico Creditors Open Checkbooks in Debt Negotiations.

Hedge funds holding Cofina bonds have offered emergency financing to struggling U.S. territory

Some of Puerto Rico's creditors are offering financing to the indebted U.S. territory as they jockey for top status in the renegotiation of its debts, according to people familiar with the matter.

The federal board installed to supervise Puerto Rico's debt restructuring met last week with major creditor groups, some of which are sizing up whether the island's government needs an immediate infusion of liquidity, and if so, how much, these people said.

Hedge funds holding senior bonds backed by sales-tax revenues, called Cofinas, have offered roughly \$800 million in emergency financing to alleviate a potential cash crunch, these people said. As recently as last week, Franklin Advisers and OppenheimerFunds Inc., the territory's two largest mutual-fund creditors, separately offered to extend financing to Puerto Rico, a person familiar with the matter said.

A spokesman for the oversight board on Monday declined to comment on specific financing proposals.

With \$70 billion in bond debt, crippling out-migration and high unemployment, Puerto Rico is in the midst of a financial crisis that has led it to seek concessions from creditors. Last week, departing Treasury Secretary Jacob Lew warned that Puerto Rico may be unable to renew contracts with health care providers without financial relief before April.

Congress passed a rescue law for Puerto Rico last summer to install the board and establish two debt-restructuring mechanisms, one of which allows for consensual settlements with creditors. If negotiations fail, Puerto Rico can petition a court to initiate a quasi-bankruptcy process known as Title III and potentially force creditors to accept unfavorable repayment terms.

The Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, also temporarily freezes litigation against the government. In a letter sent last week to new Gov. Ricardo Rossello, the oversight board said it was "favorably inclined" to extend the litigation stay from Feb. 15 to May 1 to give him time to develop a fiscal plan. The board also warned him not to accept any "short-term liquidity loans or near-term financings that could restrict fiscal options."

Elias Sánchez, Mr. Rossello's representative on the board, responded in a letter Sunday that the governor would "face the upcoming operational and budgetary challenges through structural reforms and spending cuts during the stay period." While an extension of the stay until May 1 is widely expected, creditors' hopes are dimming that Puerto Rico can strike restructuring deals or line up financing before it runs out of cash and needs to seek protection under Title III, according to people familiar with the matter.

Lending to Puerto Rico may be tricky because the financing likely would require collateral that other creditors would say is theirs, said Gary Greendale, managing director of bond insurer Ambac Assurance Corp., which has guaranteed nearly \$9 billion in Puerto Rico bonds. Moreover, as their price for providing financing, creditors are pushing to lock in debt-restructuring terms, something Puerto Rico may not be willing to provide this early in the restructuring process, according to people familiar with the matter.

"The currency of liquidity comes with some component of working out a deal," Mr. Greendale said. "Nobody wants to make an investment for investment's sake."

The group of senior Cofina creditors, led by Tilden Park Capital Management LP, Merced Capital LP, Whitebox Advisors LLC and Goldentree Asset Management LP, are proposing to let Puerto Rico access roughly \$400 million in sales-tax revenue that has already been collected, according a person familiar with the matter. The creditors would then purchase another roughly \$400 million in long-term sales tax bonds at market rates on the condition that Puerto Rico not seek additional concessions from holders of Cofina bonds.

The proposal also requires participation from subordinated sales-tax creditors, the people said. But floating new Cofina bonds may be difficult outside of Title III because a rival group of creditors holding general obligation debt has sued to invalidate the Cofina bonds and claim those sales taxes as their own, the people said. Puerto Rico owes roughly \$17 billion in sales-tax bonds and another \$13 billion in general-obligation bonds.

"Without commenting on prospective developments or undermining the process, we're continuing to pursue constructive, creative solutions that align creditor interests with those of our fellow citizens in Puerto Rico," said Susheel Kirpalani, a Quinn Emanuel Urquhart & Sullivan attorney advising the senior Cofina creditor group.

Creditors offered to provide financing during the prior gubernatorial administration, but none succeeded. The hedge funds who have challenged the Cofina structure offered last year to buy up to \$750 million in new bonds as part of a restructuring offer. Those talks failed. In July, Puerto Rico didn't pay \$780 million in general obligation debt service, the largest-ever U.S. municipal default.

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