
Puerto Rico Strikes Deal With Development Bank's Bondholders.

- **Bondholders would exchange debts for newly issued securities**
- **Pact needs broader approval of creditors and U.S. court**

Puerto Rico said creditors of the insolvent government development bank agreed to accept losses by exchanging their bonds for new securities, moving the island another step toward escaping from some of its crushing debts.

Governor Ricardo Rossello said Monday that his administration struck a deal with major bondholders of the bank, which borrowed for the U.S. territory until the island's fiscal crisis pushed it to default. If approved by others creditors, the financial oversight board and a U.S. court, the bank would be wound down and investors would receive bonds issued by a new entity that would take over its assets, which are worth some $5.3 billion.

Under the agreement, bondholders would exchange their debts at 55 percent, 60 percent or 75 percent of face value, depending on whether they elected to receive higher interest payments or the prospect of a greater recovery through debt with less legal claim to the bank's cash, according to terms disclosed in a bond filing.

The deal comes less than two weeks after Puerto Rico initiated bankruptcy-like proceedings, giving it power to have debts dismissed in U.S. court if creditors don't voluntarily agree to accept less than they're owed. Puerto Rico has already reached a similar agreement with creditors of the government electric company and officials have said they intend to continue negotiating with investors who hold securities sold by other arms of the island's government.

"This agreement is an example that the government is regaining the credibility it had lost over the past few years," Rossello said. "We are satisfied with this agreement."

While imposing losses on bondholders, the agreement will allow them to recoup more of their investment than current trading prices suggest. Government Development Bank bonds due in August, for example, traded Monday for an average of 24.3 cents on the dollar.

Rossello said at a press conference Monday that 45 percent of bondholders have so far consented to the restructuring. Under the federal emergency rescue law that allows for Puerto Rico to legally cut its debts, any voluntary agreement must be approved by a two-thirds vote of bondholders.

The agreement included the so-called ad hoc group — comprised of funds managed or advised by Avenue Capital Management, Brigade Capital Management, Fir Tree Partners and Solus Alternative Asset Management — as well as local bondholders.

"While we are voluntarily accepting to sustain significant losses, up to 45 percent of the savings that Puerto Ricans worked for, it is because we are Puerto Ricans first and we recognize the circumstances in which Puerto Rico is today," Rafael Rojo, a spokesman for local bondholder group

Bonistas del Patio said in a statement.

Under the terms of the deal, the bank's assets, including municipal loans, real estate and cash, would be transferred to the new entity. The issuer would cover payments on the two senior debt classes first, and holders of subordinate securities wouldn't receive any principal until those other bonds are paid. If cash isn't available for interest payments, bondholders would receive more debt instead, according to the term sheet released by the bank.

The bank, which used to borrow for public works, was undermined by the loss of its investment-grade bond rating in 2014, which effectively shut it out of the capital markets. Puerto Rico's fiscal oversight board, which was installed to help end the island's crisis, has already approved a fiscal plan that would shut it down.

That plan said the bank had key assets of $6.5 billion and major liabilities of $7.4 billion.

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