

Bond Case Briefs

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Puerto Rico Bondholders Face Bigger Loss After Hurricane.

- **Debt tumbles by most since governor warned of looming defaults**
- **Federal oversight board said to meet to reassess fiscal plan**

Even before Hurricane Maria devastated Puerto Rico, leaving billions of dollars in damage and crippling the electricity system, the island's government said it could repay less than a quarter of what's owed to bondholders over the next decade. Now, even that may be optimistic.

Prices of the U.S. territory's bonds have plunged to record lows, signaling investors expect that there will be even less money available to repay its \$74 billion of debt. On Friday, Puerto Rico's federal overseers, who are in charge of pulling it from a financial collapse, plan to reassess the island's fiscal plan — including how much debt it can pay — in light of the storm, according to a person familiar with the matter.

Bondholders "will have to experience some amount of pain or financial devaluation of their stakes," said David Tawil, president and co-founder of Maglan Capital LP, which no longer owns Puerto Rico bonds. Tawil estimates some prices will need to drop by as much as 20 percent, given the hit that Maria will deal to tax collections. "I don't think anybody has any appreciation for how devastating the effects of the storm will be."

Puerto Rico has little financial ability to navigate the disaster on its own, leaving the recovery heavily dependent on how much aid comes from Washington. It began defaulting on its debts two years ago, seeking to avoid draconian budget cuts officials said would deal another blow to an already shrinking economy. With nearly half of its 3.4 million residents living in poverty, the government filed for bankruptcy protection in May.

Municipal bankruptcies are rare, so it was already difficult for analysts to estimate how much bondholders will recoup, especially given that Puerto Rico's broke pension fund owes some \$49 billion to workers and retirees.

Moody's Investors Service estimated bondholders would get 65 cents to 80 cents on the dollar from general-obligation bonds and senior sales-tax debt, which have the strongest repayment pledges. This week, Fitch Ratings said the storm will likely weigh on recoveries despite the uncertainty about how much it will ultimately affect the economy.

"If you're really going to solve the problem, you have to really slash their debt," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages \$6 billion of municipal bonds, including insured Puerto Rico debt. "Sixty-five to 80 cents on the dollar, we just don't see how the island supports that long term."

Trading prices reflect those doubts. An index of Puerto Rico securities fell by 4 percent last week, marking the steepest weekly decline since July 2015, after then Governor Alejandro Garcia Padilla said the government's debts were too onerous to pay. It's fallen by another 3 percent this week, with general-obligation bonds maturing in 2035 slipping Thursday to an average of 48 cents on the dollar,

the lowest since they were first sold in March 2014, according to data compiled by Bloomberg.

One key issue is how general-obligation bonds — which the island's constitution says must be repaid before other expenses — will fare against sales-tax debt that's repaid by a dedicated share of that revenue.

"No one has any idea of what's a good value, especially now," said Matt Fabian, a partner with Municipal Market Analytics.

The commonwealth's fiscal plan, which the federal board approved in March, allocated \$8 billion for debt payments between now and 2026, far short of the \$33.4 billion that's owed.

The island is now even more desperate for cash. This week, Puerto Rico's federal overseers approved using as much as \$1 billion of this year's budget to cover emergency spending. And with the storm paralyzing the economy, revenue will likely be further squeezed in the months ahead.

That financial pressure may leave Puerto Rico and its bondholders allies in Washington, where officials in Congress have vowed to provide the aid needed to rebuild, though the timing and size have yet to be determined.

"You're going to see a meaningful fall in tax collections," said Brad Setser, senior fellow at the Council on Foreign Relations. "That will certainly limit the availability of funding to make any near term debt service payments."

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