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With Puerto Rico in Ruins, Bondholders Offer Cash for Gains.

- **Creditors reprise once spurned deal with 15 percent haircuts**
- **Group says \$1 billion loan would help secure federal funds**

In late June, Puerto Rico's federal overseers rejected a plan that would have let big investors recover 85 cents on the dollar from bonds backed by the island's distressed electric company, wagering a better deal for the impoverished U.S. territory could be won in bankruptcy.

The Puerto Rico Electric Power Authority has since been devastated by Hurricane Maria, which caused billions of dollars of damage and left virtually the entire island still without power.

So on Wednesday, a group of investment funds that hold \$3 billion of the utility's bonds — including OppenheimerFunds Inc. and Franklin Advisers Inc. — revived the spurned deal: In return for a \$1 billion loan, they said they'd be willing to accept the same terms on a third of their holdings. The price is roughly twice what some of the utility's debt has been trading for.

"They keep bringing it back from the dead and hope that they'll hold on to a 15 percent haircut," 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. He predicted the island won't accept it. "It's a time for money to be offered, but not with contingencies surrounded around it."

Puerto Rico and U.S. Department of Energy officials are still struggling to restore electricity, a week after the storm. Governor Ricardo Rossello has pleaded for more help to avoid a humanitarian crisis. In Washington, House Speaker Paul Ryan and other Congressional officials are still assessing how much aid to send to the island, whose financial collapse has effectively blocked it from raising more money in the financial markets.

The bondholders' loan — which would need approval from the island's oversight board — could help Prepa, as the utility is known, meet local matching requirements to receive Federal Emergency Management Agency funds, according to the group. FEMA may allocate as much as \$9 billion to Prepa, depending on the federal agency's matching thresholds. Among the group is Marathon Asset Management LP, BlueMountain Capital Management LLC, Angelo, Gordon & Co. LP, and Knighthead Capital Management LLC.

"What we're trying to do is lend where our investors are not disadvantaged," Thomas Wagner, co-founding partner of Knighthead, said on Bloomberg TV. "But where we can have a win win — where the capital is not expensive, but ultimately it achieves the goals of bringing even more capital in on a zero-cost basis."

A spokeswoman for Puerto Rico's fiscal agency, which has been handling inquiries about the utility, didn't have immediate comments. Natalie Jaresko, the executive director of the oversight board, said it welcomes the support from creditors and will review the proposal, in consultation with the Puerto

Rico officials.

The broad terms effectively reprise a deal creditors struck with Puerto Rico after months of negotiations and before Congress enacted emergency legislation giving it authority to have debts discharged in court.

The latest iteration would have the investors exchange \$1 billion of outstanding bonds for \$850 million of new debt through so-called debtor-in-possession financing, which is routinely extended to corporations working under court protection from creditors. Those new notes — as well as the \$1 billion loan — would receive priority over all other Prepa bonds, giving them higher standing than other creditors in the bankruptcy proceedings.

The exchange rate received under the offer is well above where the bonds have been trading. Debt maturing in 2032 changed hands Tuesday at an average 43.2 cents on the dollar, down from nearly 56 cents at the start of the month, data compiled by Bloomberg show. The securities rose to 47 cents Wednesday, after the proposal was announced.

“Our thoughts are with the people of Puerto Rico and its residents during this difficult time,” Stephen Spencer, managing director at Houlihan Lokey, which is advising the bondholder group, said in a statement. “We hope that this capital commitment will provide bridge financing and matching funds as required by FEMA legislation while supporting the commonwealth’s recovery.”

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By Michelle Kaske

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— With assistance by Erik Schatzker

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