There Could Be Good News for Puerto Rico Bondholders.

A proposed Treasury loan aimed at Puerto Rico would add to the island's long list of creditors, but it could also help improve bondholders' chances of getting their money back.

The proposed loan of up to $4.9 billion appeared in a bill released late Tuesday night by House Republicans. The money could help avert a government shut down in the hurricane-ravaged commonwealth, making it a likely positive for bondholders.

"If it helps get Puerto Rico up and running again, it advances the cause of repaying their debts," said Matt Fabian, a partner with Municipal Market Analytics.

In May, Puerto Rico was placed under court protection in what amounted to the largest-ever U.S. municipal bankruptcy. The commonwealth and its agencies owe more than $70 billion to creditors.

The legislation leaves it up to the Treasury and Homeland Security departments to determine the terms of repayment and the security on the loan. It's not clear from the bill whether a Treasury loan would take priority over the commonwealth's existing debt and potentially lower bondholder recoveries.

The House is expected to vote on the measure at the end of this week, according to a GOP aide, and the Senate could take it up early next week.

"We certainly know that Texans and Floridians and residents of Puerto Rico have been suffering mightily and we want to get as much money out the door as possible to help them, because I think they are in desperate need," House Appropriations Committee Chairman Rodney Frelinghuysen, (R., N.J.) said in an interview.

Community disaster loans like the one that would be available to Puerto Rico under the bill are typically capped at $5 million. The bill lifts that cap and gives the Homeland Security or Treasury departments the power to forgive the loans. It doesn't say under what conditions the debt would be forgiven.

The Federal Emergency Management Agency already has the ability to forgive such loans after three years under existing law, and close to 70% of debt from the disaster loan program already gets forgiven, according to a 2012 Congressional Research Service report.

In addition to Puerto Rico, the Virgin Islands and local governments in Florida and Texas affected by the hurricanes are also eligible for portions of the $4.9 billion in low-interest Treasury loans. In Puerto Rico, the money could be used help pay salaries and other expenses to avoid a government shutdown. Puerto Rico Treasury Secretary Raul Maldonado said last week the government was poised to run out of money at the end of October, and may have to furlough government employees, a move that would hinder recovery efforts.

A federally appointed control board in March outlined how much the island would pay creditors over the next decade — about a fourth of what is owed. But the board could decrease that amount in the wake of the hurricane, the Journal has reported. A benchmark general obligation bond traded at about 35 cents on the dollar Wednesday, up from a record low of about 30 cents a week ago.

Hurricane Maria, which devastated Puerto Rico late last month, has disrupted the ability of the government and its agencies to collect revenues. With power still out across much of the island, the state-owned electric company can’t collect electricity fees. With stores shut down for lack of electricity, sales taxes don’t flow in either.

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By Heather Gillers

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