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## Puerto Rico Bondholders, Undeterred by Plan, Await Day in Court.

- **Debt gains after island says virtually no money for bonds**
- **With deep losses anticipated, bankruptcy rulings seen as key**

Puerto Rico bondholders got some unwelcome, if widely expected, news from the insolvent island: For the next five years, there's basically no money for repaying debt. So now, they're left waiting to see how the fight over the territory's scarce funds plays out in bankruptcy court.

The prices of most Puerto Rico securities, which tumbled after Hurricane Maria ravaged the island in September, edged up Thursday, despite the government's forecast that it will have a \$3.4 billion deficit over the next five years, even if it doesn't pay any of the \$17 billion it owes over that time.

While it's disappointing that Puerto Rico didn't include principal and interest payments, investors are more interested in how the government's proposals fare in court, said Daniel Solender, head of municipals at Lord Abbett & Co.

"Everyone's waiting for the court to go through their process," said Solender, whose firm holds \$20 billion of municipal bonds, including those issued by Puerto Rico. "That's more important than this fiscal plan."

Puerto Rico, which fell into bankruptcy in May, revised its proposal to take account of the impact of the storm, which devastated the electrical grid, sent residents fleeing to the U.S. mainland and pushed the economy into a deep contraction this year. A lawyer for the federal board in November said in court that Puerto Rico may need a five-year moratorium. The island's federal oversight board, which must approve the plan, is evaluating it and intends to weigh in by Feb. 23.

But the developments this week haven't been entirely negative for investors. The Puerto Rico Aqueduct and Sewer Authority's revised fiscal plan, also released late Wednesday, showed the water utility will have about \$854 million less than it needs to cover \$1.6 billion of debt service due in the next five years, down from a \$916 million shortfall in its prior plan. That agency's most actively traded bonds Thursday, those due in 2037, rose to an average of about 70 cents on the dollar, the highest since Sept. 26 and up from 68.3 cents on Wednesday, according to data compiled by Bloomberg.

General obligations with an 8 percent coupon and maturing in 2035 traded Thursday at an average price of 26.8 cents on the dollar, up from 26 cents Wednesday, according to data compiled by Bloomberg. Those securities, the island's most actively traded, were first issued for 93 cents four years ago.

"It's hard to picture investors who are still holding these bonds selling based on this news because this is what they expected to happen," said Matt Fabian, a partner at Municipal Market Analytics.

**Bloomberg Markets**

By Michelle Kaske

January 25, 2018, 10:50 AM PST

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