

Bond Case Briefs

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In re Puerto Rico Public Finance Corporation

United States Court of Appeals, First Circuit - July 17, 2024 - F.4th - 2024 WL 3439970

Financial Oversight and Management Board for Puerto Rico, as Administrative Supervisor for the Puerto Rico Public Finance Corporation (PFC), applied for approval of “qualifying modification” to restructure PFC’s debts pursuant to Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

After court approval of stipulation that bifurcated consideration of Board’s application from parties’ dispute concerning whether the Government Development Bank for Puerto Rico (GDB), which had issued standby letters of credit to bondholders of its subsidiary, PFC, and GDB’s parent entity, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), had the right to direct the GDB Debt Recovery Authority (DRA) to issue bonds, several parties filed briefs in support of or in opposition to the proposed bond issuance, including DRA’s servicing agent and collateral monitor, which objected to it.

Construing the parties’ filings as cross-motions for summary judgment, the United States District Court for the District of Puerto Rico approved the qualifying modification, and subsequently overruled the objection to the new bond issuance. Objectors appealed.

The Court of Appeals held that under New York and Puerto Rico law, respectively, the bond indenture and the master transfer agreement, as the final transaction documents governing DRA’s issuance of new bonds on GDB’s outstanding bond claims, including its debt to PFC’s bondholders, plainly permitted issuance of the bonds without any reference to a valid claim requirement.

“Qualifying modification” to restructure debts of the Government Development Bank for Puerto Rico (GDB) pursuant to Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) did not contain a valid claim requirement, that is, a requirement that, before GDB’s Debt Recovery Authority (DRA) would issue new bonds, including to creditors of the Puerto Rico Public Finance Corporation’s (PFC), a subsidiary of GDB whose bonds GDB had guaranteed, such creditors first had to demonstrate “valid claims”; under New York and Puerto Rico law, respectively, bond indenture and master transfer agreement, the final transaction documents governing DRA’s issuance of bonds, only limited the maximum amount of bond issuance and included no valid claim requirement, and although preliminary documents did contain such requirement, those documents made clear that they were provisional, and the final documents stated that they replaced any earlier agreements.

Where, under New York and Puerto Rico law, respectively, neither bond indenture nor master transfer agreement, as final transaction documents governing issuance of bonds by the Government Development Bank for Puerto Rico’s (GDB) Debt Recovery Authority (DRA) as part of GDB’s debt restructuring under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), was ambiguous, the District Court properly declined to permit discovery into the negotiation process, on cross-motions for summary judgment by parties supporting or opposing proposed bond issuance.

