Bond Case Briefs

Municipal Finance Law Since 1971

WSJ: Puerto Rico Paying $9 Million for Power Bond Forbearance.

The forbearance agreement Puerto Rico announced Thursday with holders of its power company bonds highlights a number of the conflict points between opposing parties in the island's complex restructuring. It will also cost the cash-strapped commonwealth about $9 million in fees to creditors, according to regulatory filings.

The deal marks a cease-fire, for now, between Puerto Rico, which is preparing to restructure about $8.6 billion of bonds owed by the Puerto Rico Electric Power Authority, or PREPA, and fund managers that own the bonds. Three funds – Franklin Templeton Investments, OppenheimerFunds Inc. and BlueMountain Capital Management – have sued Puerto Rico's governor alleging the island's new debt restructuring law is illegal.

Under the deal, which expires March 31, investors and bond insurers controlling more than 60% of PREPA's bonds agreed not to take action on potential defaults on the terms of the bonds. The forbearance allows Puerto Rico to postpone payments on short-term bank loans and to use $280 million of restricted cash to fund operations.

In exchange, PREPA will keep current on bond payments, pay the forbearance fees and make its financial activities more transparent to bondholders that agree to the forbearance.

The power company must provide investors monthly cash reports and bank statements, weekly cash-flow updates, notification of any changes to its bank loans and information on its oil purchases exceeding $50 million annually, among other things.

The exhaustive financial reporting requirements reflect years of investor frustration over a perceived lack of transparency in how Puerto Rico communicates to the market. The stipulation concerning changes to the bank loans exposes tension between bond holders and PREPA's banks, Citigroup and Scotiabank, over who has priority claim on the utility's assets.

PREPA's 7% bond due 2043 jumped 10% today to 52 cents on the dollar, according to Electronic Municipal Market Access.

3:55 pm ET
Aug 15, 2014
By MATT WIRZ