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Puerto Rico, Investors Enlist Ex-IMF Officials.

The Puerto Rico government and the hedge funds that own its bonds are turning to former International Monetary Fund officials to help resolve a growing debt crisis that may require a restructuring more akin to Greece than a troubled city like Detroit.

The move comes as Puerto Rico is in talks with the funds and other investors to borrow up to about $3 billion in new bonds to replenish its nearly empty coffers. The commonwealth has more than $70 billion in debt, including that of its agencies such as the Puerto Rico Electric Power Authority, or Prepa, which is in restructuring talks with creditors ahead of a Wednesday deadline to extend some payments.

The development reflects the junk-rated commonwealth's unusual status as neither a U.S. state nor a sovereign nation, unable to permit its municipal entities to access U.S. bankruptcy protections.

Puerto Rico has retained Anne Krueger, the IMF's former first deputy managing director, as a consultant, while a committee representing the hedge funds is in talks about an engagement with Claudio Loser, the former director of the IMF's Western Hemisphere department, said people familiar with the matter.

The involvement of IMF veterans highlights how market perception of Puerto Rico—a former darling of the $3.7 trillion municipal-bond market—has changed. The IMF serves as the lender of last resort to emerging-market countries, something some investors say Puerto Rico increasingly resembles.

Peter Hayes, head of BlackRock Inc.'s municipal-bonds group, said Puerto Rico is beyond simple fixes and it will be difficult for the island to escape restructuring. "The problem is they're running out of time," he said.

A federal judge in February blocked a local law that would have created a restructuring process for Prepa and other public authorities, and a U.S. House committee is considering a bill that would permit the commonwealth to allow those agencies access to the same Chapter 9 protections granted Detroit.

Investors have faced months of uncertainty from Puerto Rico, where the government is struggling with a weak economy, declining population and high unemployment. Its bonds are widely held around the U.S. because they are exempt from federal, state and local taxes and often provide higher yields than other munis.

As a U.S. commonwealth, the island also doesn't qualify for IMF aid, but the excessive borrowing, inconsistent financial reporting and low tax collection that landed Puerto Rico in hot water are common in the developing countries that IMF economists deal with. Like a lot of those countries, Puerto Rico is wrestling with how to make politically contentious budget cuts and tax increases without strangling already-weak economic growth.

Puerto Rico's government has relatively low levels of debt by international standards, and tackling the deficit is manageable, said Charles Blitzer, a former assistant director of the IMF's monetary and capital-markets department and now principal at Blitzer Consulting.

"This is doable without great pain," he said. "In fact, countries that have adjusted have found growth rates actually increase. I'm hopeful that the hiring of ex-IMF people by Puerto Rico signals their willingness to adjust their budgetary problems credibly and rapidly."

The hedge funds that own much of Puerto Rico's bonds are looking for tips from the IMF playbook on how to use the promise of new loans to coax governments into financial overhaul and, if that fails, how to negotiate with a sovereign in default, people familiar with the matter said.

Early this year, the bondholder group including Brigade Capital Management LP, Centerbridge Partners LP, Davidson Kempner Capital Management, Fir Tree Partners and Monarch Alternative Capital sent the island's financial authorities a list of terms to include in the coming bond sale. The proposed covenants are meant to prod Puerto Rico into budget cuts and better financial disclosure, while ranking holders of the new bond above other creditors if there is a default, the people familiar with the matter said.

When Puerto Rico borrowed $3.5 billion in bond markets a year ago hoping to get financial breathing room, hedge funds bought more than half of the deal. The firms snapped up the bond for its attractive 8.7% yield but also because they hoped a successful financing would lift the prices of other Puerto Rico bonds they owned.

Since then, Puerto Rico has struggled to deliver a promised tax overhaul and bond prices have fallen. The price of the 2014 bond touched record lows below 80 cents on the dollar last month after three legislators proposed removing constitutional protections for bondholders.

Melba Acosta, president of the island's Government Development Bank, has said that the bank and the administration oppose such legislation.

The tax-overhaul plan has also received an uneasy response, facing resistance from "many quarters of the Puerto Rico economy" and its passage remains uncertain, according to Janney Capital Markets. Ms. Acosta said it would fight tax evasion and contained exemptions aimed at protecting low-wage workers.

Puerto Rico's hedge-fund creditors want more than promises of reform before they buy more bonds. The group has asked Ms. Acosta to include clauses that would raise the interest rate of the bond if the government fails to hit budget targets and would require timely standardized financial reports, the people familiar with the matter said.

"This financing explicitly seeks to bridge Puerto Rico to economic health," Mr. Loser said in an email. "The Commonwealth needs to commit to developing a comprehensive plan that balances the budget with timely and transparent financial reporting."

THE WALL STREET JOURNAL

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April 12, 2015 6:37 p.m. ET

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