
BlackRock Sees 40% Haircut in Puerto Rico Debt Restructuring.

Puerto Rico bondholders may receive an average of just 60 cents on the dollar if the commonwealth wins the ability to restructure its $72 billion in obligations, according to BlackRock Inc.'s head of municipal debt.

The Caribbean island and its agencies need to cut their debt to $40 billion, Peter Hayes, who helps oversee about $116 billion of munis at the world's biggest money manager, said in an interview on Bloomberg Television. That would mean an average recovery of about 60 percent on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Puerto Rico bond prices have tumbled since Governor Alejandro Garcia Padilla last month said the commonwealth can't afford to pay its debts, raising the specter of an unprecedented restructuring in the $3.6 trillion municipal-bond market.

The Government Development Bank, which lends to the commonwealth and its agencies, said last week it may purchase its notes through cash or exchange the securities at less than par. Standard & Poor's said Tuesday that it considers such an exchange as a default.

Default Risk

S&P cut the GDB's rating by one step to CC on the view that a default "is virtually certain," Brendan Browne, an S&P analyst in New York, wrote in a report.

Puerto Rico and its localities have a history of borrowing to fix budget deficits, racking up more debt than any U.S. state except California and New York. With an economy that has contracted every year but one since 2006, Puerto Rico officials have been building a case for convincing investors to accept less than they are owed.

Puerto Rico officials met with creditors Monday at Citigroup Inc.'s New York headquarters, the first gathering with investors since Garcia Padilla's comments. Officials said they will evaluate every bond as they work on a recovery plan and haven't given any details about which securities may be affected.

Recovery Rates

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Such debt maturing July 2041 changed hands Tuesday at an average price of 61.3 cents on the dollar, the highest since June 26, according to data compiled by Bloomberg.

Sales-tax bonds, called Cofina, that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.
They “are likely to get a fairly low recovery,” Hayes said.

Electric Power Authority bonds are trading at levels above what investors may get in a restructuring because the publicly owned electric utility needs to upgrade its plants, Hayes said. Prepa debt maturing July 2028 traded Tuesday at an average 49.1 cents on the dollar, about the same level as the start of the year, Bloomberg data show.

Bloomberg

by Michelle Kaske and Erik Schatzker

July 14, 2015 — 9:29 AM PDT Updated on July 14, 2015 — 1:16 PM PDT