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Puerto Rico Urges Creditors to Avoid Lawsuits Over \$72 bln Debt.

(Reuters) - Puerto Rico pleaded with creditors on Monday not to engage in lengthy litigation over its \$72 billion debt, but provided little information about how a debt restructuring would affect them.

At a packed meeting with bondholders at Citibank's New York offices, a clutch of the island's top officials and advisors again painted a bleak picture for the U.S. territory's economy and said fixing it would require pain to be shared by everyone with a stake in its future.

"We are hopeful we can ... avoid adverse consequences that a highly litigated process could result in," said Jim Millstein, founder and chief executive officer of restructuring advisory firm Millstein & Co, which is advising the island.

Millstein warned bondholders that litigation would hurt the commonwealth's economy, reducing the tax dollars that are the lifeblood of bond payments.

Some top bondholders have already taken Puerto Rico to court over a restructuring law passed last summer which would have affected the island's public agencies.

Two weeks ago, Puerto Rico Governor Alejandro Garcia Padilla called for a wide-ranging restructuring of the island's debt. U.S. fund manager OppenheimerFunds, the largest holder of Puerto Rico debt among U.S. municipal bond funds, warned the island it stands ready to defend the terms of bonds it holds.

The meeting came after Garcia Padilla dropped a bombshell on holders of Puerto Rico's \$72 billion debt on June 29, saying he wants to restructure debt and postpone bond payments.

"There is some urgency about the entire situation," former IMF economist Anne Krueger said at Monday's meeting. She co-authored a government-commissioned report released in June which painted a bleak picture for the island.

"A delay has costs. If you want to see what those costs are take a look at Greece now."

The meeting on Park Avenue drew a small protest of about 30 people who yelled "No to the Krueger Plan."

"(The Governor) should make the foreign corporations, the U.S. corporations in the island, pay for the debt, and the rich," said Fatima Santana, a nurse who is Puerto Rican but lives in New York.

Inside the meeting, Millstein and Government Development Bank (GDB) head Melba Acosta took a handful of prepared questions after a presentation given by Acosta and Krueger.

Creditors asked questions to try and clarify what kind of adjustment the government planned for their debt, but Millstein said he was not in a position to talk about particular issuers' debt. He said it

would be examined on an “entity to entity” basis.

A fund manager from a prominent mutual fund firm who attended the meeting said he saw no sign investors would heed calls to accept voluntary bond restructuring.

“I am pretty sure that the mood with the creditors is going to be: ‘I am going to stick hard with principles on whatever you promised’,” the fund manager said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said as he exited Citi’s offices that the meeting was “rather general in terms of presentation and the questions they had and answered.”

Acosta said implementing a turnaround plan would require “sacrifice from all our stakeholders, including first and foremost the people of Puerto Rico” who endured a decade of stagnation; as well as government employees and local and multinational businesses. A plan also needs to include the federal government which can aid the economy and its financial creditors, Acosta said.

Replying to a question about whether the commonwealth could get by without federal help, Acosta said the island was “not asking the government for a bail-out” but was seeking help with policies that would remove barriers to economic stability.

A consensual plan agreed with creditors is ideal, Acosta said, with a drawn-out contentious plan bad for the island. She added that it would be premature to suggest the amount of debt adjustment required.

Acosta added that the administration would propose a financial control board be created with the tools to ensure compliance with the plan’s targets.

Millstein said he hoped Monday’s meeting would be the first in a series of constructive discussions between the commonwealth and investors to put Puerto Rico on a trajectory to growth.

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By Megan Davies and Edward Krudy

(Additional reporting by Jessica DiNapoli; Editing by David Gregorio)