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Moody's: U.S. Unlikely to Bail Out Puerto Rico; Bankruptcy Not a Viable Solution.

New York, July 22, 2015 — Moody's ratings assume no US federal payment on Puerto Rico's (Caa3 negative) debt, and any effort by the federal government on the commonwealth's behalf would have marginal near-term effects, Moody's Investors Service says in a new report.

"The federal government does not provide states or local governments with extraordinary funds to avert defaults on their debt, in part because doing so would induce other governments to take on unsustainable amounts of debt or engage in reckless fiscal practices," says Moody's VP — Senior Credit Officer Ted Hampton in "Frequently Asked Questions About Puerto Rico's Fiscal and Debt Crisis."

The FAQ also addresses the challenges Puerto Rico faces in current efforts to introduce Chapter 9 bankruptcy measures under the US bankruptcy code.

"Since Chapter 9 is unlikely to be a viable way to achieve a consolidated restructuring of all the commonwealth's debt, bankruptcy authorization would not be sufficient by itself to manage Puerto Rico's current pressures," says Hampton in the FAQ.

The very high likelihood that Puerto Rico will default and significantly restructure its obligations affecting all of its bondholders to varying degrees, provokes questions about expectations for bondholder recoveries.

"We believe bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections. These securities consist of those rated Ca, including notes issued by the Government Development Bank for Puerto Rico (GDB, Ca negative) and the commonwealth's subject-to-appropriation debt," Hampton says.

Moody's ratings below investment grade are based on both the probability of default and the expected bondholder loss given default.

The expected debt restructuring will be unusual, consistent with of Puerto Rico's status as neither an independent nation nor a US state. While similar to US states, Puerto Rico lacks the same legal rights and does not have representation in the US Congress. Unlike Greece (Caa3 on review for downgrade) Puerto Rico cannot turn to a lender of last resort, such as the International Monetary Fund.

The FAQ also address other questions regarding the recent loan by bond insurers to the Puerto Rico Electric Power Authority (PREPA — Caa3 negative), pension assets and the ability of the commonwealth recover fast enough to support its debt.

The report is available to Moody's subscribers [here](#).

