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Puerto Rico Default Recovery Rates as Low as 35%, Moody's Says.

Investors may receive as little as 35 cents on the dollar under a restructuring of Puerto Rico debt if the commonwealth defaults, Moody's Investors Service said.

Debt sold by the island's Government Development Bank, Highways and Transportation Authority, Infrastructure Finance Authority and Municipal Finance Authority is among the \$26 billion with the lowest recovery rates, Moody's estimated Wednesday in a report. The debt is ranked Ca, the second-lowest rating from the New York-based company.

"We believe that the probability of default is approaching 100 percent, and that losses given default are substantial," Moody's analysts wrote. "Bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections."

Investors including BlackRock Inc. and Pacific Investment Management Co. have speculated about bondholder losses in Puerto Rico since Governor Alejandro Garcia Padilla last month called the island's \$72 billion of debt unpayable. Moody's said the commonwealth could support 60 percent to 65 percent of its net tax-supported debt, assuming no economic rebound.

Holders of debt with stronger safeguards, like general obligations and bonds from the commonwealth's Electric Power Authority and Aqueduct and Sewer Authority would probably fare better than others, with recoveries of 65 percent to 80 percent, Moody's said.

The credit rater said its estimates are based on cuts in principal and interest payments of about 40 percent a year through 2023, as the government decides to reduce debt service payments to avoid budget shortfalls.

Bankruptcy alone wouldn't be enough to dig Puerto Rico out from under its debt burden, Moody's said.

If Puerto Rico agencies had access to Chapter 9, island officials have said it may apply only to certain public corporations, such as the power utility, water agency and highway authority. Those entities owe about \$20 billion combined.

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