

# **Bond Case Briefs**

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## **Puerto Rico Development Bank Ends Debt Talks With Creditors.**

Puerto Rico's Government Development Bank said talks with a group of bondholders over a restructuring of the agency's debt and potential financing have ended after they failed to reach an agreement.

The development bank, which is closely tied to other government borrowers because it acts as a lender to the commonwealth and its localities, said in an e-mailed statement Wednesday that it continues to focus on a broader restructuring that would allow bondholders to voluntarily exchange their securities for new ones.

All seven of the members in the bondholder group exited the talks, according to two people with knowledge of the matter. The investors include Avenue Capital Management, Brigade Capital Management, Candlewood Investment Group, Claren Road Asset Management, Fore Research & Management, Fir Tree Partners and Solus Alternative Asset Management, said the people, who asked not to be named because the investor identities weren't made public.

Representatives for each of the investment firms either declined to comment or didn't immediately return messages left for comment.

### **Senate Hearing**

The debt-swap talks ended as the GDB faces a \$345 million principal and interest payment due Dec. 1, with \$267 million of the bonds guaranteed by the commonwealth. The breakdown comes a day before Governor Alejandro Garcia Padilla, who is seeking to reduce the island's \$73 billion in debt, is scheduled to testify at a Senate hearing on Puerto Rico's financial crisis. Officials have said the island may run out of cash in November.

"We do not believe that Puerto Rico has the ability to offer a strong enough exchange security to incentivize legacy holders to trade in their paper," Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said in a note. "We further believe that the negotiating creditors, who likely made this clear to the GDB before beginning their negotiations, might be annoyed that the GDB did not have a good faith plan for exchanging debt when they sat at the negotiating table."

### **Exchange Proposal**

GDB bonds maturing February 2019, the bank's most-actively traded security in the past three months, sunk nearly 3.3 cents when they were last traded Oct. 15 to an average of about 36.8 cents on the dollar, to yield 41 percent, according to data compiled by Bloomberg. That was the lowest average in more than five weeks, the data show.

The proposed transaction would have exchanged existing debt at prices equal to 130 percent of market value, according to an event filing posted on the Municipal Securities Rulemaking Board's website, called EMMA. The new cash notes would have been priced with an 8.5 percent coupon at a

10 percent yield.

“We strongly believe that a voluntary adjustment of the terms of the commonwealth’s debt that allows the measures contained in the Fiscal and Economic Growth Plan to be implemented is the best way to maximize recoveries for creditors,” Melba Acosta, president of the GDB, said in a statement. “The GDB and the Working Group are engaging constructively with key stakeholders to achieve a comprehensive path forward, and we have begun the process of signing non-disclosure agreements and initial due diligence with a number of creditors.”

The U.S. territory had been seeking to restructure some of the development bank’s roughly \$5.1 billion of obligations. The GDB on Sept. 30 offered the group of bondholders to exchange \$850 million of existing GDB notes and sell \$750 million of new tax-exempt debt issued by the Infrastructure Financing Authority and backed by taxes on petroleum products and guaranteed by the commonwealth, according to the filing.

The GDB has been working with Citigroup Inc. to help oversee its financial restructuring.

## **Bloomberg News**

by Michelle Kaske and Laura J Keller

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