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Puerto Rico Leaves Bondholders Guessing on December Payments.

Puerto Rico Government Development Bank's disclosure of its available cash is leaving investors wondering if they'll be paid on Dec. 1.

The bank, which oversees the island's borrowings, had \$875 million of net liquidity as of Sept. 30, according to a posting Wednesday on the agency's website. That's more than twice the \$354 million of principal and interest due in 33 days, with \$276 million of the bonds guaranteed by the commonwealth. A spokesman for Puerto Rico's governor reiterated Thursday that while the government plans to make its general-obligation bond payments, it may run out of cash in November and the administration will focus on providing essential services over paying creditors.

"I don't trust anything they send out," said Daniel Solender, who oversees about \$17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey, and holds the commonwealth's debt. "It's just hard to tell what's real or not anymore. It's almost more political than anything as to what they decide to do with the next payments."

Governor Alejandro Garcia Padilla's administration is seeking to reduce the island's \$73 billion debt load by asking investors to take a loss and delaying principal payments. Officials and commonwealth consultants met Tuesday with bondholder advisers that have signed non-disclosure agreements to discuss a potential debt restructuring after talks with GDB bondholders fell through the week before.

Available Funds

"Certainly it's a possibility that the government will run out of money, and we've said that several times, but we're trying to make sure that does not happen," Jesus Manuel Ortiz, the governor's spokesman, said in San Juan. "If we arrive at that moment, we will have to choose whether to pay the creditors or to continue providing essential services. The governor has always been consistent in his position that we will continue to provide government services."

The GDB serves as a measure of Puerto Rico's available funds. The Sept. 30 net liquidity level was the first monthly disclosure of the GDB's available cash since June, when it gave the May 31 net liquidity amount of \$778 million.

"We're working in two ways," Manuel Ortiz said during a press conference at the governor's residence. "As much as in the negotiations with creditors, as in finding measures that will help us maintain the liquidity as quickly as possible to avoid a closing."

If the GDB and Puerto Rico were to not repay the commonwealth-backed securities maturing Dec. 1, it would be the first default on the island's direct debt. A Puerto Rico agency in August failed to repay principal and interest on bonds backed by legislative appropriation.

Obama Proposal

Prices on commonwealth bonds differ, depending on whether they are insured against default. The commonwealth-backed GDB bonds maturing Dec. 1 are insured by National Public Finance Guarantee. The securities last traded Tuesday at an average price of 99.8 cents on the dollar, for an average yield of 6.9 percent, according to data compiled by Bloomberg.

GDB bonds without Puerto Rico's repayment pledge or bond insurance and maturing Dec. 1 last traded Tuesday at an average price of 47 cents on the dollar, Bloomberg data show.

The governor and Antonio Weiss, counselor to U.S. Treasury Secretary Jacob J. Lew, last week at a Senate committee hearing urged Congress to assist the island in its financial crisis. The Obama administration wants Congress to give Puerto Rico broad bankruptcy powers, increase health-care funding, and create a federal fiscal control board that would weigh in on the commonwealth's spending.

Lord Abbett held, as of Aug. 31, the GDB bonds maturing Dec. 1, including securities guaranteed by the commonwealth and insured by National Public Finance Guarantee and also GDB bonds without Puerto Rico's repayment pledge, according to data compiled by Bloomberg. Lord Abbett hasn't participated in talks with the GDB because the firm declined to sign non-disclosure agreements and restrict itself in trading the securities, Solender said. He has yet to hear from the commonwealth or the bond trustee regarding the Dec. 1 payment.

"It just seems like all they're doing is trying to build their case for Washington and it seems like the odds are pretty low," Solender said. "And they're waiting until the last possible minute to take any action."

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