

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Makes Bond Payment by Redirecting Revenue.

NEW YORK — Puerto Rico on Tuesday made bond payments on \$355 million worth of debt maturing on Dec. 1 that was issued by its Government Development Bank by diverting revenues pledged to other debt.

A default could have triggered lawsuits, further spooked investors and undermined the island's efforts to climb out of \$72 billion in debt.

MARKET REACTION: Puerto Rico's 8 percent General Obligation Bond rallied to trade at an average price of 75 cents on the dollar, with a yield dropping to 11.168 percent versus a yield of 11.809 percent on Monday.

COMMENTS:

TED HAMPTON, ANALYST, MOODY'S INVESTORS SERVICE:

"The Commonwealth of Puerto Rico's Government Development Bank made full payment of debt service to its note holders today, despite its strained liquidity. The payment, which was disclosed in a press release, indicates the commonwealth is making an effort to avoid litigation and prevent further deterioration in relations with its creditors."

"Puerto Rico's financial situation remains pressured and today's payment does not change Moody's current ratings or outlook on the commonwealth's debt. Moreover, the governor's executive order to redirect revenues allocated to certain non-general obligation bonds underscores the severity of the commonwealth's liquidity issues. Puerto Rico now must make \$945 million in total bond payments on January 1, including \$363 million in general obligation debt service. We continue to view default as likely on future commonwealth debt payments."

DAVID TAWIL, PRESIDENT AT MAGLAN CAPITAL IN NEW YORK:

"This just really buys a bit more time for the Commonwealth, but the PR leadership better act fast with respect to bond holder negotiations if they want these payments to have been worthwhile. Otherwise, if there is an eventual default, then that was good money thrown after bad."

MIKHAIL FOUX, MUNICIPAL RESEARCH DIRECTOR AT BARCLAYS CAPITAL, NEW YORK:

"The more important thing is the actual claw back... We were saying they were going to do that. It's just a question of when. And they just decided to do that before the January payments. Come January we're going to see some defaults, which was always our base case scenario on certain entities ... By clawing back on certain entities they're showing their intent."

PHILIP FISCHER, HEAD OF MUNICIPAL BOND RESEARCH, BANK OF AMERICA MERRILL LYNCH IN NEW YORK:

"I think the essential question from the hearing is where are the financials (Puerto Rico's latest

audit)? Absent the financials it's extremely difficult for Congress to come to an exact assessment of where Puerto Rico stands. Absent the financials we have difficulty judging all the issues related to remedies."

ROBERT AMODEO, FUND MANAGER, WESTERN ASSET MANAGEMENT, NEW YORK:

"Ultimately this is going to be a messy situation we believe and one that is protracted. You have the GO (general obligation) debt holders saying, 'look, we have the constitutional rights, you have to find revenue from every available source', and then you have the COFINA bondholders saying, 'we have these nice bond documents that say these are not available revenues'."

JAMES COLBY, SENIOR MUNICIPAL STRATEGIST, VAN ECK GLOBAL, NEW YORK:

"When we saw the initial headlines, we were exhaling a sigh of relief - we don't have a monetary default. But now we go to the next month. Come January 1, we've got another very significant commitment that they have to address... by no means is this to be construed as anything but just a momentary blip in what's been a continuing litany of confusing positioning and comments from the leadership" in Puerto Rico.

ROBERT RAUCH, SENIOR PARTNER AND PORTFOLIO MANAGER, GRAMERCY FUNDS MANAGEMENT, GREENWICH, CONNECTICUT:

"Padilla's comments were a game-changer. He admitted essentially that Puerto Rico is out of cash. They have no recourse but to put off the day of reckoning. They have already defaulted on a non-GO obligation. It is just a matter of time at this point."

"We'll start to see things quickly unwind and then everything goes back to the U.S. Congress. They are the only ones who have the ability to actually legislate and give Puerto Rico the tools to address the financial stress they are under. It will have to be bespoke legislation to address this."

"We have examined Puerto Rico but did not invest because of a lack of clarity on the process."

By REUTERS

DEC. 1, 2015, 1:09 P.M. E.S.T.

(Reporting By U.S. Municipal Markets Team; Editing by Daniel Bases and Bernard Orr)