
Puerto Rico's Dec. 1 Deadline: A Guide as Possible Defaults Loom.

Pensioners form a long queue to collect their pensions from a National Bank of Greece SA bank branch in T
Puerto Rico faces a dilemma: pay bondholders $354 million on Dec. 1 or hold on to the cash to ensure it can keep the government running.

The decision may mark a turning point in the long-simmering fiscal crisis for the Caribbean island, which is seeking to cut its $70 billion of debt by persuading investors to accept less than they're owed. While it began skipping payments on bonds backed only by legislative appropriations in August, next week's payment includes debt that the central government has guaranteed, giving investors legal recourse. Another $957 million is due from Puerto Rico and its agencies on Jan. 1.

If there's a default, bondholders may sue for repayment, igniting a legal battle that could upset efforts to negotiate a debt-restructuring agreement. Talks with creditors are only just beginning, and Puerto Rico has yet to disclose the terms it will offer investors to exchange their debt for new securities.

The commonwealth is doing "everything possible" to make the payment, according to Jesus Manuel Oritz, spokesman in San Juan for Governor Alejandro Garcia Padilla.

The payments Tuesday are all due on bonds sold by the Government Development Bank, which lends to the island's central government and its agencies. That includes $267 million of maturing debt that's guaranteed by the commonwealth. The securities are insured by MBIA Inc.'s National Public Finance Guarantee Corp., which would be on the hook if Puerto Rico doesn't pay.

The GDB is likely to default on at least a portion of what's due, Genevieve Nolan, a Moody's Investors Service analyst, wrote in a Nov. 11 report. That wouldn't be a surprise to the $3.7 trillion municipal-bond market: Puerto Rico's debt has been trading at distressed levels for more than two years and officials for months have said maintaining essential services and programs is the commonwealth's first priority.

Avoiding a default in December or January — the busiest months for debt payments until July — would give the commonwealth time to negotiate with investors and insurance companies that guarantee its securities. It may also cause prices to rebound, which would provide investors with an opportunity to sell ahead of a restructuring, according to Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.
Such a reprieve may only prove temporary. Standard & Poor's said in a September report that all of Puerto Rico's tax-backed debt is highly vulnerable to default.

One Island, Many Bonds

Here's a list of the island's debt, how much is outstanding, when major monthly payments are due, and the source of funds that back the securities, according to data compiled by Bloomberg. Also included are the bonds' most recent yields. A higher yield indicates that investors see more risk of non-payment:

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. The bonds, known by the Spanish acronym Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. $1.2 million of interest is due in February and again in May. Senior Cofinas maturing in 2040 last traded for an average yield of 9.5 percent, while subordinate ones yielded 18 percent.

General-obligations: $12.6 billion. The debt backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Puerto Rico owes $357 million of interest in January and an additional $805 million of principal and interest is due July 1. Securities due in 2035 last traded for an average yield of 11.5 percent.

Puerto Rico Electric Power Authority: $8.2 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. The utility owes $196 million of interest in January and $420 million of principal and interest July 1. Prepa is negotiating with bond-insurance companies after reaching an agreement with some of its bondholders, who agreed to take a 15 percent loss.

Bonds maturing in 2040 last traded at an average yield of 9.2 percent.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The bank owes $354 million in December and $422 million in May. Federally taxable bonds maturing in 2019 last traded for an average yield of 57 percent.

Puerto Rico Highways & Transportation Authority: $4.6 billion. The highway agency repays its debt with gas-tax revenue. It owes $106 million of interest in January and $220.7 million of principal and interest in July. The commonwealth has the ability to divert revenue that cover some highway bonds to pay its general-obligation securities, if there are no other available resources, according to the island's most recent financial disclosure. Bonds maturing July 2028 last traded for an average yield of 32 percent.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue that public agencies pay for their office buildings. The agency owes $102.4 million of interest in January and $208 million of principal and interest in July. Bonds maturing 2042 last traded for an average yield of 10.4 percent.

Puerto Rico Aqueduct & Sewer Authority: $4.1 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes $86.5 million of interest in January and $135.1 million of principal and interest in July. Bonds maturing in 2042 last traded at an average yield of 8.7 percent.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The system pays $13.9 million of interest every month in this budget year. Securities maturing in 2038 last traded for an average yield of 22 percent.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Prifa owes $37.2 million of interest in January and $77.8 million of principal and interest in

July. Bonds maturing in 2046 last traded for an average yield of 28 percent.

Puerto Rico Public Finance Corp.: $1.09 billion. The bonds are repaid with money appropriated by the legislature. The agency has defaulted every month since August on its debt-service payments because lawmakers failed to allocate the funds. It owes interest every month, the largest being a $24 million payment in February. Bond maturing in 2031 last traded for 7 cents on the dollar, according to trade reports. The yield wasn't disclosed.

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