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Puerto Rico Needs Debt Restructuring Authority: U.S. Treasury Secretary.

NEW YORK — Puerto Rico needs debt restructuring authority under U.S. bankruptcy law to address what the Obama Administration has previously called an “escalating crisis”, U.S. Treasury Secretary Jack Lew, said on Fox Business Network TV on Thursday.

U.S. House of Representatives Speaker, Republican Paul Ryan, has instructed committees to work with Puerto Rico’s government to come up with a solution to the island’s financial problems and said this should be crafted by the end of March.

The House is expected to hold a Jan. 5 hearing on the U.S. territory’s financial problems.

Puerto Rico has some \$70 billion in debt, a poverty rate of 45 percent, and has been in recession for nearly a decade. On Jan. 1 it faces roughly \$1 billion in debt payments and officials have warned of a default on some of that paper.

With debt of more than \$8 billion and inefficient operations, PREPA had been one of the crucial public agencies to restructure, and remained separate to a wider restructuring of the island’s debt which officials have been attempting.

POWER UTILITY AGREES DEAL WITH CREDITORS

On Wednesday Puerto Rico’s electric power utility PREPA said it has agreed a deal with creditors, including holdout bond insurers, on a restructuring of its debt, a move seen as key to fixing the island’s faltering economy.

“It’s a good feeling that we have been able to get disparate creditors together to agree to a path forward,” said PREPA’s Chief Restructuring Officer Lisa Donahue. “The one thing that made it doable is that everyone recognized there was a problem and that we needed to solve it together.”

PREPA said it reached a deal with creditors holding 70 percent of its debt, which comes after months of negotiations and over a year of extensions to a creditor agreement.

“There was always a sense that this thing (PREPA) was going to get done. Maybe a bit slower than I would have expected... The question becomes, does that provide a model to the rest of the debt? I don’t necessarily think so,” said Joe Rosenblum, director of municipal credit research at AllianceBernstein in New York.

“Some people might seize on it as Puerto Rico can sit down and negotiate with bondholders. I think the rest of the bondholders for the rest of the debt presents a much more complex problem,” Rosenblum said, noting how PREPA’s deal was driven by the utility’s economics whereas other debt involves taxes and political considerations.

PREPA, which provides electricity to Puerto Rico’s roughly 3.5 million residents, charges consumers

far more than the average customers pay in the U.S. mainland and has been under pressure to convert to generally cheaper and cleaner natural gas. Donahue said the utility had been working to improve customer service and that the restructuring plan calls for investment in gas.

A September deal with a group representing about 35 percent of its bondholders saw those creditors agree to swap bonds for new notes, receiving 85 percent of existing bond claims. Bond insurers National Public Finance Guarantee Corporation, a unit of MBIA and Assured Guaranty, however, did not sign on.

PREPA said Wednesday that the insurers had agreed a deal which calls on them to provide a \$462 million surety bond. That would fund a debt service fund that backstops an investment grade rating for the new bonds being issued under the bondholder deal, according to a source familiar with the deal.

Assured Guaranty said it will issue surety insurance policies of up to \$113 million to support the deal.

The price of Assured's stock traded up 87 cents a share to \$27.64 while MBIA's rose 61 cents a share to \$6.85 in early New York trading. Year-to-date, Assured is up 6.4 percent while MBIA is down 28.3 percent.

The deal includes similar terms to the original bondholder deal such as PREPA receiving debt service relief of more than \$700 million, a cut to PREPA's principal debt burden by more than \$600 million. It sees a narrowing of the utility's cash projected cash deficit by more than \$675 million.

It also calls for creditors to refinance \$115 million of an interest payment due Jan. 1. Creditors are committing that if PREPA makes the payment in full on Jan. 1 they will purchase new bonds from PREPA of \$115 million, the source said. PREPA owes \$302 million on Jan.1 according to the utility's press office.

The deal requires enactment of necessary legislation, an investment grade rating for the new bonds and getting more bondholders to participate, the source said, as after the exchange offer, PREPA must not have any more than \$700 million of the existing PREPA debt outstanding.

By REUTERS

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