Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico’s Power Authority Reaches Preliminary Pact with Bond Insurers.

Some creditors have agreed to accept losses of 15% as part of a pact to swap debt

The Puerto Rico Electric Power Authority reached a preliminary agreement with bond insurers to restructure the utility’s finances, a key step toward completing the first deal that would grant debt relief to the U.S. commonwealth.

Some creditors have agreed to accept losses of 15% as part of a pact to swap old debt from the authority, known as Prepa, for less risky bonds. Insurers agreed to bolster the security of the new bonds, which would make it more likely that the bonds would be rated investment grade, according to a person familiar with the situation.

The agreement hasn’t been approved by the power authority’s board and would only take effect after Puerto Rico’s lawmakers reconvene and pass legislation to allow the deal. The agreement with bond insurers was earlier reported by Bloomberg News.

Spokespeople for Prepa and bond insurers MBIA Inc. unit National Public Finance Guarantee, Assured Guaranty Ltd. and Syncora Guarantee Inc. declined to comment on the status of the talks.

Officials have said the negotiations over Prepa, which owes about $9 billion, could serve as a template for talks over other Puerto Rico debt. The commonwealth is seeking to strike deals with investors to restructure about $70 billion of debt, which includes Prepa debt, without the bankruptcy protections allowed U.S. municipal entities.

Puerto Rico Gov. Alejandro Garcia Padilla and the U.S. Treasury Department have asked the U.S. Congress to create a formal debt-restructuring process for the island. Such a framework is critical to avoiding a legal quagmire that would hurt both island residents and creditors alike, Mr. Padilla said Friday. A measure allowing the commonwealth to restructure debt didn’t make the $1.15 trillion spending bill passed Friday.

“By not acting now, Congress has opted for the U.S. commonwealth to default on its obligations and unfold into chaos,” the governor said in a statement.

While some investors oppose such a move and have said the Prepa negotiations show there is no need for it, Congress this week gave the clearest sign that lawmakers will eventually take up legislation addressing the island’s crisis. House Speaker Paul Ryan said Wednesday he had instructed the relevant committees to find a “responsible solution” by the end of March.

“Any solution must include both independent oversight and an orderly process to restructure the Commonwealth’s debt,” U.S. Treasury Secretary Jacob Lew said in a statement Thursday.

House Minority Leader Nancy Pelosi introduced a bill on Friday that would stay legal actions against the commonwealth while Congress considers restructuring legislation. Mrs. Pelosi said it was “profoundly disappointing that debt-restructuring authority for Puerto Rico was not included” in the spending bill. Puerto Rico has about $1 billion of debt payments due on Jan. 1. Mr. Padilla this week said the island would probably default either in January or May.

The U.S. Supreme Court has also agreed to consider whether Puerto Rico should be allowed to write laws permitting public agencies such as Prepa to restructure debts.

Friday’s tentative agreement is an encouraging sign that at least some Puerto Rico agencies and investors can agree to restructuring without formal bankruptcy protection, said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which oversees about $17 billion of tax-exempt debt, including some from Puerto Rico.

“It’s a positive step,” he said. “Having an agreement with bond insurers is important because they’re involved in so many of these different credits.”

THE WALL STREET JOURNAL

By AARON KURILOFF

Dec. 18, 2015 6:55 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com