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## **Puerto Rico Plans Debt-Exchange Offer Friday.**

Puerto Rico plans to propose a debt exchange to investors Friday, offering to swap existing bonds for two new types of securities to help the U.S. commonwealth alleviate its debt burden.

Both classes of debt would delay payments, allowing Puerto Rico time to make fiscal adjustments and spur economic growth, said a person briefed in the matter. One would eventually pay interest at 5%, while the other would carry a value determined by the island's fiscal health.

Bondholders would be offered the first class of debt in amounts based on the relative legal priority of their holdings, the person said. Investors would then receive enough of the second class to make up the difference between that amount and the face value of their bonds.

The new securities would be safer and more easily traded than existing Puerto Rico bonds, the person said. The first class would have interest payments beginning in 2018, rising to 5% in 2021, and principal due starting in five years. Payments on the second class could begin in 10 years, with creditors receiving up to 25% annually of commonwealth revenue that exceeds current projections.

Such an exchange would help the commonwealth find room to implement fiscal changes outlined in a revised economic plan released last week, which could allow creditors to eventually make their principal investment back, the person said.

Puerto Rico Governor Alejandro Garcia Padilla said in a statement the commonwealth had taken measures to reduce expenses and increase revenue and needed help from creditors.

"I have instructed our team and our advisors to present to our creditors' advisors tomorrow the Commonwealth's proposal for a voluntary debt exchange," he said. "It is our every intent to protect the integrity of the process, and as such, we do not plan to negotiate the terms of our proposal publicly."

Puerto Rico owes investors about \$70 billion and is struggling with a decade of economic stagnation and a steep population decline that last year led Gov. Alejandro Garcia Padilla to declare its debts unpayable. The commonwealth began defaulting on bonds with its weakest legal pledge in August and missed about \$37 million in bond payments earlier this month after diverting money to pay some investors at the expense of others. That move prompted lawsuits from bond insurers.

The proposal comes as officials work to stave off additional litigation and seek aid from the U.S. Congress, including access to municipal bankruptcy protections currently denied the commonwealth. Democrats and the Obama administration have sought legislation that would allow Puerto Rico to restructure its debt and proposed bills to temporarily stay lawsuits against the island. House Speaker Paul Ryan (R., Wis.) has called for lawmakers to find a "responsible solution" to Puerto Rico's crisis by the end of March.

Puerto Rico last week said new estimates show the commonwealth about \$16 billion short of the money it needs to cover debt payments over the next five years, even with significant fiscal

adjustments. The commonwealth says it is getting along by differing tax refunds, stretching payments to suppliers and other extraordinary measures.

“Continuation of these measures is neither sustainable nor in the interest of any stakeholder, as they will only deepen the financial gaps that the Commonwealth and its creditors will need to resolve, while at the same time placing the full burden of the crisis on the residents of Puerto Rico,” Victor Suarez, the commonwealth’s secretary of state, said in a news release at the time.

The exchange offer is being made to investors holding debt backed by the island’s taxes and not those with revenue bonds from some agencies such as the Puerto Rico Aqueduct and Sewer Authority, the person said. The Puerto Rico Electric Power Authority Thursday renewed a tentative restructuring deal with creditors.

Some benchmark Puerto Rico bonds maturing in 2035 traded Thursday at about 71.75 cents on the dollar, up from about 70.75 cents the previous day, according to the Electronic Municipal Market Access website.

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