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Puerto Rico to Hold Debt-Restructuring Talks Jan. 29.

Puerto Rico has scheduled meetings Friday with representatives of several bondholder groups to discuss a possible restructuring of \$70 billion of municipal bonds, people familiar with the matter say.

The meetings come as Puerto Rico struggles to make progress on two tracks, striking deals with bondholders and persuading U.S. legislators that the island merits relief from the U.S. government. Further complicating the process, the U.S. territory has more than a dozen types of bonds and is negotiating simultaneously with several creditor groups that have competing claims.

Puerto Rico missed about \$37 million of debt payments in January, while a tentative agreement expired between bondholders and the Puerto Rico Electric Power Authority. The government raised estimates of its financing gap by 15% last week, which investors expect will increase the losses Puerto Rico will push them to accept in a restructuring.

Some investors are skeptical about Puerto Rico's willingness to commit to restructuring talks and believe Governor Alejandro García Padilla is waiting for action from Congress or the Supreme Court first that may improve the U.S. commonwealth's position. Hedge-fund bondholders have been trying to broker such a deal for more than a year but Puerto Rico has rebuffed their offers so far, people familiar with the talks say.

"Who doesn't think it's better for Puerto Rico to wait?" said Matt Fabian, partner at the research firm Municipal Market Analytics.

A spokeswoman for Puerto Rico's Government Development Bank declined to comment.

Democrats and the Obama administration have sought legislation that would give Puerto Rico the authority to restructure its debts and proposed bills that would temporarily stay lawsuits against the commonwealth. House Speaker Paul Ryan (R., Wis.) has called on lawmakers to deliver a "responsible solution" by the end of March.

The Supreme Court has also agreed to review Puerto Rico's efforts to write its own law aimed at restructuring debt from its public utilities.

Even in bankruptcy court Puerto Rico would need to negotiate with bondholders over how much of a debt reduction they would accept. Owners of different types of debt are jostling to reach deals with Puerto Rico that will minimize their own losses.

Owners of general-obligations bonds and some bonds that are paid off by sales taxes—known by their Spanish acronym, Cofina—will have the upper hand in negotiations because they have stronger legal claims, lawyers and investors said. Holders of subordinate Cofina bonds and bonds issue by the Government Development Bank of Puerto Rico are expected to recover less, they said.

A committee of general-obligation bondholders including Davidson Kempner Capital Management and Monarch Alternative Capital and advised by law firm Paul, Weiss, Rifkind, Wharton & Garrison

LLP is cooperating with a committee of Cofina senior bondholders represented by Quinn Emanuel Urquhart & Sullivan to craft a restructuring proposal, according to people familiar with the matter. A separate group of hedge funds that owns GDB bonds includes Avenue Capital Management, Brigade Capital Management and Fir Tree Partners and is working with law firm Davis Polk & Wardwell LLP.

Puerto Rico must also negotiate terms with other creditors. OppenheimerFunds Inc. and Franklin Advisers Inc. own billions of dollars of subordinated Cofina bonds and general-obligation bonds in mutual funds they operate. Bond insurers Ambac Financial Group Inc. and Assured Guaranty Ltd., back about \$8 billion of Puerto Rico bonds, placing them among the island's largest creditors.

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By MATT WIRZ and AARON KURILOFF

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Write to Matt Wirz at matthieu.wirz@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

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