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Puerto Rico Bondholders Make First Counteroffer to Debt Plan.

An investor group that owns about \$1.6 billion of Puerto Rico senior sales-tax bonds is proposing a plan that would allow them to be repaid in full rather than accept the discounted amount the commonwealth has offered under its restructuring proposal.

Goldentree Asset Management, Whitebox Advisors and Metropolitan Life Insurance are among the bondholders proposing that some investors of the securities, referred to as Cofinas because of their Spanish acronym, wait longer to be repaid and avoid accepting losses on their principal holdings through Puerto Rico's debt-exchange offer. The creditor plan would still give Puerto Rico the debt-service relief it's asking for by spreading out payments over time, said Susheel Kirpalani, a partner at Quinn Emanuel Urquhart & Sullivan, which is representing the investors in negotiations with the commonwealth.

"Without Congress passing a bill, all these proposals are worthless," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees \$3.9 billion of municipal bonds, including Puerto Rico securities. "These bondholders can go back and forth, and demand this, and wish for that, and hope for this, but it's a problem that has just continued to snowball."

The commonwealth last week released a restructuring proposal that would cut its obligations by 46 percent where investors accept losses in a voluntary debt exchange. The Cofinas proposal is the first sign that Puerto Rico's different creditors, which include hedge funds, municipal bond mutual-funds, individual holders and bond-insurance companies, are moving toward presenting their own alternatives to the commonwealth's plan rather than offering one unified creditor proposal.

"Rather than be just another creditor group that's whining and complaining and saying — 'we don't like, we won't give, we won't do,' — we're trying to meet the commonwealth where they are," Kirpalani said in an interview. The proposal was submitted last week, he said.

An uninsured senior sales-tax bond maturing 2036 traded Tuesday at an average price of 53.8 cents on the dollar, for an average yield of 12.2 percent, according to data compiled by Bloomberg. A year ago the debt changed hands at about 78 cents.

Puerto Rico and its agencies owe \$70 billion after years of borrowing to paper over budget deficits. Its economy has contracted every year but one since 2006. Residents are fleeing the island at record levels to find work on the U.S. mainland. Unlike U.S. municipalities, Puerto Rico's agencies cannot access bankruptcy.

Congress is working on legislation to help the island, which may include some type of bankruptcy powers and a federal control board that would oversee budgets and borrowing.

"We don't comment on discussions with creditors," said Barbara Morgan, a spokeswoman who represents the commonwealth's Government Development Bank at SKDKnickerbocker in New York.

The bank is overseeing Puerto Rico's debt restructuring.

There are two types of Puerto Rico sales-tax bonds: \$7.6 billion of senior debt and \$9.7 billion of subordinate bonds. The senior Cofinas get repaid first from a portion of the island's 11 percent sales-tax rate while the subordinate securities are second in line for repayment. Sales-tax investors would recover about 49 percent of the par value of their securities in the commonwealth's debt-exchange offer.

Repayment Scenarios

The Cofina proposal, which includes investors holding about 20 percent of senior sales-tax debt, reflects the repayment difference between the senior and subordinate bonds. In a scenario where Puerto Rico's economy has zero growth, senior Cofinas are estimated to get repaid in 2018 through 2047, with subordinate bonds being repaid in 2047 through 2060.

The offer, "provides exactly the same amount of debt relief that the commonwealth needs from the Cofina house in a way that's consistent with the structure and honors and defends the contractual rights of the senior bondholders against the subordinate bondholders," Kirpalani said.

Other investors not included in the group with the counteroffer are focusing on a comprehensive plan that works for all Puerto Rico creditors rather than narrowing talks to one one band of investors, said a person familiar with discussions among other major holders of sales-tax bonds.

"It's a negotiation dance that is really not chaperoned by anybody than can chaperon, at this point," Dalton said.

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