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Puerto Rico Investors Offer New Bond Deal to Avert Default.

Investors holding almost \$5 billion of Puerto Rico general-obligation bonds released a plan to provide debt relief to the island, which include a new \$750 million offering to stave off a July 1 default.

The bondholders would agree to defer principal repayments for five years through a consensual exchange offer, saving the commonwealth \$1.9 billion over the period, according to the proposal. It also stipulates issuing \$750 million of new general obligations at a 7 percent interest rate to avoid a default on an \$805 million general-obligation payment on July 1. Those securities would also pay only interest through June 2020.

The investor proposal comes after the Puerto Rico Senate passed a bill calling for a moratorium on a wide range of debt payments, including general-obligation bonds, through January 2017. The \$13 billion of securities are guaranteed by the island's constitution.

"What the bondholders are doing seems to at least be a more productive step than what Puerto Rico is trying to do," said Dan Solender, who manages \$18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey.

General obligations with an 8 percent coupon and maturing 2035 traded Tuesday at an average price of 66 cents on the dollar, the lowest since the bonds were first sold in 2014, data compiled by Bloomberg show. The average yield was 12.8 percent.

"This consensual process avoids a July 1 default, which would irreparably harm Puerto Rico's economy, hurt millions of American citizens who live on the island, and impair Puerto Rico's access to markets and its ability to finance essential services," Andy Rosenberg, a lawyer at Paul Weiss Rifkind Wharton and Garrison, who represents the bondholder group, said in a statement. He represents a group of general-obligation bondholders in their negotiations with Puerto Rico and other creditor groups.

The terms proposed by investors includes enacting a statutory lien on general-fund revenue, similar to measures in Rhode Island and California. They would also require Puerto Rico to resume deposits into an escrow account at a New York bank to pay debt service on general obligations.

The \$750 million size for the new deal could be revised based on funding needs, according to the proposal.

"We are ready and willing to discuss potential solutions that would address the commonwealth's fiscal crisis in a sustainable and comprehensive fashion," Melba Acosta Febo, president of the Government Development Bank for Puerto Rico, said in a statement. "We have not received an actionable, binding financing commitment from anyone, and we have received no offers that would lead Puerto Rico towards a stable and prosperous economy for years to come."

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by Brian Chappatta

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