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Puerto Rico Passes Bill Allowing Halt to Debt Payments.

Gov. Alejandro García Padilla of Puerto Rico on Wednesday signed a bill that would allow him to declare a state of emergency and give him authority to halt payments on the island's crushing \$72 billion debt.

The measures capped two days and nights of marathon debate in Puerto Rico's legislature, where lawmakers from the main opposition party called any unilateral debt moratorium dangerous and members of the governor's party insisted that doing nothing would be even worse.

In Washington, House Republicans seeking to rescue Puerto Rico prepared to release a revised plan that includes a federal oversight panel. The proposal has been contentious on the island, where the governor and his top advisers are increasingly at odds with investors over how to restructure the debt, most of it in the form of municipal bonds.

"This legislation provides us with the tools to address the highest priority of needs — providing essential services to our people — without fear of retribution," the governor said in a statement on Wednesday. He accused Puerto Rico's creditors of hampering federal assistance by "misinforming the public and dissuading Congress from doing what is right for our 3.5 million American citizens."

The Puerto Rican Senate approved the measure at about 3 a.m. Tuesday. The House, after becoming embroiled in a dispute over whether certain types of bonds should be excluded, approved it around 1 a.m. Wednesday.

Stephen Spencer, who represents some investors who have already agreed to restructure their bonds, said, "We intend to carefully review the legislation, but at this stage we believe that it may lead to violations of the terms of the agreement."

He said that the administration last fall had hailed that restructuring as a model for others to follow, adding that the bondholders he represents should have been excluded from any coming moratorium, "rather than being cast into a state of uncertainty."

The bill did not specify a starting date for a moratorium, leaving that decision to the governor. But a big debt payment, \$422 million, is due on May 1, and there have been many signs that Puerto Rico is not able or willing to pay it.

That payment is due on bonds issued by the Government Development Bank, an institution that plays a critical role in the island's financial affairs, including holding deposits of municipalities and other government entities. As recently as last week, holders of the bank's debt were in talks about an agreement that would give the bank some breathing room if it failed to make the payment.

But those efforts broke off in the face of a flurry of revelations that the bank was insolvent, that it might be placed in receivership, and that it was swiftly moving deposits to other financial institutions, apparently to keep them from being frozen or drained away by frightened depositors.

The bill says the bank has just \$562 million in cash. A moratorium would be intended, among other

things, to help preserve that cash, so the bank can use it to finance the activities of other parts of the government.

The law also establishes a new framework for putting the development bank into receivership, and creating a “bridge bank” that would take over some of its deposits and obligations during the moratorium.

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