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Puerto Rico Aims to Appease Congress With New Debt Proposal.

Puerto Rico proposed a new plan on Monday to restructure its debt, offering some creditors better terms than an earlier plan but falling well short of winning broad support.

The plan was announced as members of Congress in Washington struggled with a momentous decision: whether and how to give Puerto Rico extraordinary powers to wipe out debt. Conservative Republicans have resisted this idea, but major defaults are looming. Last week lawmakers in Puerto Rico stepped up pressure on Congress to act quickly by suddenly authorizing the island's governor to halt payments on $72 billion in debt.

If the threat of a debt payment moratorium was Puerto Rico's stick, the restructuring offer on Monday appears to be a carrot. Puerto Rico said it had found a way to make debt payments of $1.85 billion a year, compared with the $1.7 billion a year it had offered before.

"The commonwealth is in crisis, and the fact is that we will only be able to address these issues by working together," Victor A. Suarez, Puerto Rico's secretary of state, said in a statement. "Our commitment to this is underscored by our willingness to listen to our different creditors and work to meet their needs."

The new restructuring plan covers $49.3 billion of Puerto Rico's total debt, most of which is in the form of municipal bonds. It calls for creditors to accept $32.6 billion to $37.4 billion up front by exchanging existing bonds for two new classes of bonds. The offer is up from a previous offer of $26.5 billion.

Puerto Rico's Government Development Bank, a crucial part of the local economy, risks defaulting on $422 million in debt payments due May 1, and the island faces $2 billion in payments on debt in July. Lawmakers both in San Juan and Washington have been working to prevent a disorderly collapse of the island's finances. Congress is working on a revised proposal to help Puerto Rico restructure under the supervision of a federal oversight panel.

The Treasury secretary, Jacob J. Lew, speaking at the Council on Foreign Relations on Monday, said, "There are still some open issues."

"There are a lot of details, but when you get down to the bottom line the question to us is: Does that restructuring authority work? It has to work or it's not going to be acceptable," he said. "It can't be something that you put a label on but in the marketplace it doesn't work." He did not comment on Puerto Rico's new proposal.

Puerto Rico began presenting its first restructuring proposal to creditors in January. A number of them said they considered it unacceptable; some have tried with little success to interest Puerto Rico in counteroffers.

Particular resistance has come from creditors who hold bonds backed by Puerto Rico's most ironclad pledges. General obligation bonds, for example, are specifically guaranteed by the island’s constitution, and some holders argue that anything less than full, timely repayment would be unconstitutional.

Puerto Rico has taken the position that all types of creditors must sacrifice, however. The new offer announced on Monday reflects that position. General obligation bonds held by investors who do not live on the island would get a recovery rate of 74 percent under the new proposal. Holders of sales-tax-backed bonds would get 57 percent; and holders of bonds issued by the Government Development Bank would get just 36 percent.

Puerto Rico’s financial crisis, and the solutions sought by Washington, could reverberate throughout municipal finance. A potential sticking point is that Puerto Rico’s other long-term commitments, such as the pensions of retired government workers, would not be reduced under the new restructuring plan. Pensions do not currently have top legal priority in the order of creditors seeking payment, and some lawmakers think that switching around credit priorities for Puerto Rico would send a shock through the capital markets, making it harder for other states and cities to borrow.

The new proposal calls for current bondholders to trade in their holdings for two new types of bonds. Bondholders would get more or less of each type, depending on the priority of the bonds they now hold. Those with the highest-priority bonds would get more of the first type, which offer less monetary value but greater certainty of repayment.

The first type would be a “base bond” with a total face value ranging from $32.6 billion to $37.4 billion, depending on whether bondholders in Puerto Rico opted in or took advantage of the special offer available to them alone.

The new base bonds would start out paying 1.1 percent interest for the coming fiscal year. (Under Puerto Rico’s previous offer, interest payments would not have started until a year later.) The interest rate would then rise gradually to 5 percent in 2021, the same year principal repayments would start.

Bondholders living in Puerto Rico would, however, have the chance to recover more of their initial investment if they were willing to wait. Instead of trading in their holdings for the regular base bonds, they could opt for “local holder base bonds,” which would have a value equal to the face amount of the bonds being handed over. The local holder base bonds would pay a fixed, 2 percent rate of interest over a longer period of time.

A summary of the proposal noted that Puerto Rico was seeking to “provide relief to those Puerto Ricans who live day-to-day off their interest payments,” and the government was also looking at other ways of helping them.

For investors not living in Puerto Rico, there would be only a chance of getting a full recovery. In addition to their base bonds, they would get a second type, called “capital appreciation bonds,” which would not offer any cash payments until after the base bonds had been fully repaid and it was clear how much of a loss each type of bondholder had suffered.

At that point, this second type of bond would start paying investors enough to make up for their losses over a long time.

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