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Puerto Rico Moving Closer to Deal With Some Bank Bondholders.

Puerto Rico's Government Development Bank, operating under a state of emergency to preserve cash, is about halfway toward reaching a forbearance agreement with creditors, according to an official.

The GDB, which lent to the commonwealth and its municipalities, owes \$422 million on May 1 that officials have said the bank cannot pay. Jesus Manuel Ortiz, spokesman for Governor Alejandro Garcia Padilla, said while leaving a press conference in San Juan on Friday that the government was about halfway there when asked by a Bloomberg News reporter about how talks on a potential forbearance pact were progressing. Such an agreement would allow the parties to negotiate out of court.

In an e-mail later to Bloomberg News, Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the GDB, said there is no agreement yet.

"While we are actively negotiating in good faith with our creditors, no one on our team would ever suggest agreements have been reached," Morgan said. "That would be both premature and directly at odds with our commitment to not negotiate this through the media."

Taxable Debt

The bank has filed with regulators to sell taxable debt that would mature in May 2017, according to the Municipal Securities Rulemaking Board's website. Garcia Padilla on April 9 declared a state of emergency for the bank. That decision limits withdrawals from the GDB only to fund health, public safety and education services. The bank has \$562 million of liquidity, according to a debt-moratorium law passed two weeks ago.

Puerto Rico and its agencies borrowed for years to fix budget deficits, amassing \$70 billion of debt. Island officials are negotiating with bondholders to reduce those obligations through a voluntary debt exchange. A U.S. House Natural Resources Committee is working on a bill that would establish a federal control board to manage Puerto Rico's budgets and oversee any restructurings.

Puerto Rico needs Congress to address the island's finances in order to protect its ability to maintain essential services for its residents, Antonio Weiss, counselor to U.S. Treasury Secretary Jacob J. Lew, told a packed audience in Manhattan Friday during a panel on the commonwealth's debt crisis at the Center for Puerto Rican Studies at Hunter College. For every dollar the island collects in tax revenue, it must spend 33 cents on debt services, compared to an average 5 or 6 cents for states, Weiss said.

Cascading Defaults

"Without legislation by Congress, Puerto Rico will face a cascading series of defaults, including on its constitutionally protected debts and mounting litigation both against the commonwealth and

between the creditors,” Weiss said.

The cash-strapped commonwealth is expected to fall short of paying the \$422 million to holders of the GDB bonds, Moody’s Investors Service said Friday in a report. It may also default on debt from the Employees Retirement System, Industrial Development Co. and Highways and Transportation Authority, Moody’s said.

Lew on Friday urged Congress to act on a restructuring for the commonwealth to avoid a bailout.

“The goal should be that at the end of a restructuring, that Puerto Rico will again have access to capital markets,” he said in an interview with the Spanish-language Univision television network. “With a restructuring, it will actually be better for creditors as well.”

(An earlier version of this story was corrected to remove the reference to a tentative agreement in the first two paragraphs.)

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by Michelle Kaske and Alexander Lopez

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