[Bond Case Briefs]

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[Puerto Rico, Bondholders Remain at Odds.]

Puerto Rico drew back the curtain on its talks with bondholders, underscoring how far apart the sides remain in a fight over the restructuring of $70 billion of municipal debt.

Puerto Rico's Government Development Bank on Tuesday disclosed terms of various restructuring proposals discussed in negotiations that have ended. The talks included a committee representing investors in the commonwealth's general obligation bonds, a group holding senior sales-tax-backed, or "Cofina," bonds, and a single investor with large holdings of general obligation bonds and junior Cofina bonds, according to the disclosure.

Uncertainty about a looming U.S. congressional vote on a restructuring framework for Puerto Rico has made it difficult for the island to come to terms with the various creditor groups, investors and analysts said. Neither the island nor its bondholders are likely to agree to a deal until rules are worked out on Capitol Hill, they said.

Meanwhile, some general obligation bondholders filed a lawsuit Tuesday challenging Puerto Rico's April debt moratorium law, which allows the commonwealth to suspend bond payments while it addresses its financial crisis. Plaintiffs in the suit are Jaçana Holdings, Lex Claims, MPR Investors and RRW I.

Puerto Rico has said it can't afford to make a $2 billion payment on its general obligation debt due July 1.

Grace Santana, chief of staff to Gov. Alejandro García Padilla, said the governor's office is reviewing the suit, but "the hedge funds' decision to litigate instead of continuing good-faith negotiations further demonstrates their continued refusal to acknowledge the reality of the commonwealth's fiscal crisis."

Puerto Rico presented investors on June 14 with a proposal that amended a previous restructuring plan by offering to give bondholders more of a new bond that would pay interest in cash, instead of additional debt.

The changes were most significant for holders of junior Cofina bonds, improving recoveries to 60 cents on the dollar from at least 43 cents under the government's previous deal, according to the disclosure.

Oppenheimer Funds Inc. and Franklin Templeton Inc. are two of the largest holders of the junior Cofina bonds, with combined investments of $3.1 billion. The two mutual-fund managers also own $6.6 billion of other Puerto Rico bonds.

An Oppenheimer spokeswoman said the firm didn't participate in negotiations but looks forward to working with other stakeholders "to help get Puerto Rico on a sustainable path forward while serving the interests of our shareholders." Franklin Templeton declined to comment.

Other stakeholders include hedge funds and insurance companies, which back more than $10 billion in Puerto Rico debt. The Government Development Bank said some insurers were involved in the discussions. The two insurers with the most debt, Assured Guaranty Ltd. and National Public Finance Guarantee Corp., a unit of MBIA Inc., declined to comment. They hold a combined $8.8 billion, according to documents posted on the firms' websites.

In Puerto Rico's latest proposal, the island would improve general obligation recoveries to 81 cents on the dollar from at least 72 cents and Cofina senior bond recoveries to 80 cents from at least 61 cents.

Creditors countered with a proposal that sought 95 cents on the dollar for senior Cofina bonds and 89 cents for general obligation bonds.

Gov. García Padilla said the counterproposals "fall short of what Puerto Rico needs to secure a prosperous future."

The island's general obligation bonds changed hands at about 66 cents on the dollar on Tuesday, reflecting investor doubts about Puerto Rico's offer and the island's substantial financial problems, investors and analysts said.

Current prices imply the new exchange bond Puerto Rico is proposing would trade at a yield of about 7%, much higher than the 5% yield the government proposed, they said. Bond yields rise as prices fall.

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