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Puerto Rico Bondholders Devastated, but See Hope in U.S. Plan.

SAN JUAN, Puerto Rico — Attorney Santiago Mari sighed as he punched numbers into his calculator and saw the result.

The value of his retirement account has dropped 75 percent due to the collapse in Puerto Rican bonds that make up much of his personal portfolio, he said. He's long abandoned plans for an early retirement. And he's far from alone.

"You have a whole lot of Puerto Ricans who invested millions of dollars in bonds that they're unable to sell," said Puerto Rico financial adviser Jose Ivan Acosta.

While hedge funds hold much of Puerto Rico's troubled debt, individual investors own an estimated \$15 billion in bonds — 22 percent of the island's overall \$68 billion public debt. Many eagerly bought Puerto Rico bonds because they are exempt from state, local and federal taxes and were widely considered safe.

"They made it sound like it was the last remaining Coca Cola in a desert, that it was safe because it was backed by the government," Mari said.

That changed as the U.S. territory's government and its public utilities piled on debt to cover deficits during a 10-year economic slump. New taxes and higher utility rates pushed businesses to close and the tax base dwindled as more than 200,000 Puerto Ricans left for the U.S. mainland. With falling revenue, the government this year imposed a debt moratorium after a series of defaults on bond payments that began last year.

Prices for Puerto Rican bonds have plummeted, devastating many investors in Puerto Rico and on the mainland. Some have had to delay retirement, find alternative sources for their children's college funds or rejoin the workforce.

"My dream was to retire at 55 years old, and I worked hard for that," said 57-year-old Eduardo Rodriguez, a former maintenance worker who now works in a supermarket. "What can I do? They say men don't cry, but we do."

Many hold out hope that a new federal aid package signed by President Barack Obama in June will at least limit their losses. The measure creates a federal control board to oversee Puerto Rico's finances, supervise some debt restructuring and negotiate with creditors. Puerto Rico bonds rallied by some 20 percent that day and remained at that level even after the governor announced a moratorium on general obligation debt, Acosta said.

The news has encouraged Mari who, unlike some of his friends, has retained his bonds.

"I still have hope within my despair," Mari said. "The solution has to come from the outside. If it's left in local hands, they will plunder what little remains."

While it's too early to know what changes the control board will implement, a restructuring process of any kind would be positive, Acosta said.

"Honestly, anything is better than what we have right now," he said.

Some analysts cautioned about reading too much into the bond price rally, however.

"It was a momentary, reflex reaction as opposed to a market-moving event," said Jim Colby, who runs the \$2.2 billion VanEck Vectors High Yield Municipal Index, an exchange-traded fund in New York.

He said Puerto Rico general obligation bonds, which many consider Puerto Rico's safest, are trading at around 65 cents on the dollar, and that future prices might be close to that. But "there's really no telling right now what kind of haircut, what kind of valuation is going to be given to any of the bonds of any of the series that are currently outstanding but not paying their interest.

"It's going to be a long time before we really have a clear picture," he added.

Of the estimated \$15 billion debt held by Puerto Rico investors, \$3.8 billion of the original \$7 billion issued belongs to the Government Development Bank, which is operating under a state of emergency, and another \$1 billion to the Public Finance Corporation, which was the first government agency to default. Only a small portion represents general obligation debt that is expected to receive top priority once the anticipated restructuring begins.

Raymond Watson, a former director of Puerto Rico's Highway Transportation Authority, bought general obligation debt because he believed it was the most secure. The 80-year-old said he was aghast when the governor last month declared a moratorium on that debt even though it is supposedly backed by the island's constitution.

"That is almost as sacred as the Bible," he said, adding that he and his wife face high medical bills and worry about being forced to declare bankruptcy. "We are not indulging in any kind of luxuries. We have cut back greatly on eating out, even if it's at Burger King. We used to take a cruise almost yearly. None of that. We are now prisoners in our own home."

Watson holds out hope that the federal aid measures will help.

At a minimum, they could repair Puerto Rico's credibility by stabilizing the island's finances and providing long-overdue transparency, which in turn could help it re-enter the market and allow people to recuperate some of their investment, Acosta said.

That's an encouraging prospect for Mari, who said some bonds he bought at \$10 are now worth \$1 or \$2.

"I am holding on until the end," he said. "The uncertainty is killing me."

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