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Hedge Funds Press Banco Popular for Puerto Rico Deposits.

Hedge funds that own Puerto Rico bonds are putting pressure on Banco Popular over commonwealth funds deposited at the bank that they say should go to them.

Lawyers representing the Ad Hoc Group of General-Obligation Bondholders sent a letter Thursday to Banco Popular de Puerto Rico in San Juan, notifying the bank of the group's rights and remedies regarding government funds redirected to meet other obligations.

The so-called clawback revenue should be used to help repay general-obligation debt because the island's constitution says those securities must be repaid before other bills, the group said. The commonwealth defaulted on about \$1 billion of principal and interest due July 1, including \$780 million for general obligations, the largest payment failure in the \$3.7 trillion municipal-bond market.

Some members of the bondholder group, including Aurelius Capital Management, Autonomy Capital, Covalent Partners, FCO Advisors, Monarch Alternative Capital and Stone Lion Capital Partners last month sued Governor Alejandro Garcia Padilla, claiming that a federal law enacted on June 30, called Promesa, which means promise in Spanish, prohibits Puerto Rico from redirecting cash or assets that violates its constitution.

Revenue Redistribution

"Our clients reserve all rights and remedies with respect to the clawed back funds referenced in the pending lawsuit and any and all actions Banco Popular may take that are inconsistent with the constitution and laws of the U.S., as well as the constitution and laws of Puerto Rico and the debt obligations issued there under," Andrew Rosenberg, a lawyer at Paul Weiss Rifkind Wharton & Garrison, which is representing the hedge funds, said in the letter.

Teruca Rullan, a spokeswoman for Banco Popular in San Juan, declined to comment.

Garcia Padilla began clawing back agency revenue last year to help pay general obligations due Jan. 1. The administration redirected \$289.2 million of revenue from January to June of this year, with \$143.2 million deposited at Puerto Rico's Government Development Bank, according to the commonwealth's most recent audit.

Puerto Rico deposited the remaining amount at Banco Popular, according to the investor group.

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