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Puerto Rico Government Development Bank Opts to Liquidate.

The territory's industrial development bank owes about $4.5 billion to creditors

Puerto Rico's industrial development bank has decided to liquidate, proposing a fiscal plan to federal officials that calls for winding down its operations over 10 years.

The Government Development Bank for Puerto Rico, which for decades acted as the U.S. territory's fiscal agent and government lender of last resort, can't repay its obligations to bondholders and should wind down, Puerto Rico officials said Friday at a meeting in New York with federal oversight officials.

The federal board overseeing Puerto Rico's financial restructuring swiftly approved the liquidation proposal, details of which weren't made public prior to the board's decision. The bank will continue collecting on its outstanding loans to Puerto Rico agencies, and make disbursements to bondholders and depositors, board members said.

The development bank owes roughly $4.5 billion to bondholders, including hedge funds that have argued in court that they must be paid out on an equal basis with the bank's depositors.

GDB's debt pile is only a fraction of Puerto Rico's $70 billion debt load, accumulated through years of borrowing to finance budget deficits against a diminishing tax base.

The board has already approved a fiscal plan for the central government to serve as the basis for negotiations with creditors that allocates less than $800 million a year for debt service. That represents less than a quarter of the roughly $3.5 billion a year creditors are owed under existing contracts.

Creditors are up against a deadline to reach consensual settlements by Monday, when a legal shield protecting Puerto Rico from debt-related lawsuits is scheduled to expire. Next week, the board can continue to keep the courthouse doors closed to creditors by placing Puerto Rico under bankruptcy protection. Creditors could then be forced to accept unfavorable repayment terms under this court-supervised process, known as Title III, that was created by Congress last year.

Oversight board chairman Jose Carrion said that the board could petition for Title III without a public hearing and declined to comment further on the board's strategy for the impending deadline. Filing the bankruptcy petition requires votes from five of the board's seven members.

"We reserve the right to pass judgment on these issues in executive session," Mr. Carrion said.

Puerto Rico's advisers have proposed that creditors enter into standstill agreements to forestall litigation while private talks continue. But it remains unclear if creditors are willing to continue negotiating under forbearance agreements or if the board would agree to delay invoking Title III.

The board also approved fiscal plans for other Puerto Rico government agencies that call for creditor concessions to close multiyear fiscal gaps. Puerto Rico's highway authority, its sewer company and its public power monopoly, all of which owe billions of dollars in municipal bond debt, secured approval of fiscal plans predicated on reductions in their debt service outlays. The University of Puerto Rico hasn't yet coordinated with the territorial government to develop its plan, Mr. Carrion said.

Only the Puerto Rico Electric Power Authority, known as Prepa, has hammered out a deal with its creditors, a $9 billion agreement dating to 2015 that Gov. Ricardo Rossello recently renegotiated to include additional debt concessions.

The board certified fiscal plan adds requirements for Prepa to evaluate selling off assets and privatizing aspects of its power-generation capabilities.

The Puerto Rico Aqueduct and Sewer Authority is considered by investors to be in better fiscal shape than other instrumentalities and was the last Puerto Rico issuer to attempt to tap the bond markets, floating an abortive $750 million offering in late 2015. Now Prasa will seek holidays on principal repayments or reductions in interest rates to help close a $3.5 billion funding gap, according to its presentation to the board.

Water and sewer customers meanwhile would pay higher utility rates toward deferred capital expenditures. The less money the utilities need to set aside for their bondholders, the less they need to seek politically unpopular rate hikes on Puerto Rico residents and businesses.

"If we don't have competitive rates in Prepa and Prasa, we will never be able to compete in our region," said Elias Sanchez, the governor's representative on the board. "We have to build a competitive scheme in our rates."

Mr. Carrion said the board didn't have enough time to release public copies of the plan before their approval.

"Simply it was a decision of time constraints," he said. "We had a lot on our plate and it all just came together today."

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