

# **Bond Case Briefs**

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## **Puerto Rico Starts \$70 billion Bankruptcy Proceeding, Biggest Ever for Municipal Bond Market.**

Puerto Rico has officially requested to enter into a bankruptcy-like proceeding to restructure its massive debt load after talks with its creditors failed.

Puerto Rico's governor, Ricardo Rossello, announced Wednesday that he had requested that the federally appointed oversight board trigger Title III of the Promesa Act, a court-supervised debt restructuring similar to bankruptcy, in order to guarantee the best interests of the Puerto Rican people.

The restructuring of Puerto Rico's roughly \$70 billion in outstanding debt would be the largest in the history of the U.S. municipal bond market and will set the stage for a lengthy legal battle between the island and its creditors, which include multiple hedge funds and mutual funds, as they face off in court where a federally appointed judge could force creditors to accept unfavorable repayment terms.

In a statement issued Wednesday, Rossello said that "after extensive discussions in good faith and the opening of the financial books of the Government of Puerto Rico to the creditors, there has not been sufficient progress in the negotiations."

"While the Government remains willing to continue to pursue good-faith dialogue and negotiations with its creditors, the recent expiration of the Promesa stay imposed against enforcement of creditor liability claims dictates that the best course of action is for the Government to enter into Title III."

Rossello officially notified the oversight board of his decision in a letter dated May 2.

"The Government has made good-faith efforts to reach a consensual restructuring with its creditors," the letter says. "Puerto Rico's creditors have not demonstrated a sufficient willingness to fairly share in such sacrifice through a necessary reduction in their debt to a sustainable level."

### **'Turn Puerto Rico into the next Argentina'**

Following the Title III announcement, the Ad Hoc Group of General Obligation bondholders, which holds approximately \$3 billion of the island's debt, issued a strongly worded statement accusing the oversight board of sabotaging creditor talks in order to push Puerto Rico into bankruptcy.

"Over the past several days, the GO bondholder group and the Commonwealth have been negotiating a consensual deal. Yesterday, just as a deal was within reach, we understand that the Oversight Board intervened to block it, and the Governor acquiesced to the Board," Andrew Rosenberg, the legal advisor to the group, said in the written statement.

"For months, the Oversight Board has made every effort to sabotage consensual negotiations, to flout the requirements of PROMESA and Puerto Rico's constitution, and to force Puerto Rico into bankruptcy," the statement continued. "With that bankruptcy now started, the Governor has

forfeited all power over the restructuring, and the economy of Puerto Rico will be put on hold for years. Make no mistake: The Board has chosen to turn Puerto Rico into the next Argentina.”

A separate bondholder group, the Cofina Seniors Coalition, had a different take on the Title III decision, calling it “sound public policy” that respects congressional intent and supports an orderly debt restructuring process.

“A Title III filing at this point in time enables Puerto Rico to freeze numerous lawsuits, maintain essential services for its residents, and rely on a court-driven restructuring process to objectively determine respective creditors’ rights,” said Susheel Kirpalani of law firm Quinn Emanuel Urquhart & Sullivan in the statement. “While it is regrettable that Puerto Rico is facing a bankruptcy-like process to resolve its historic fiscal challenges, this was certainly an option of last resort.”

## **80 percent cut to debt service payments**

The governor noted his plans to continue to make payments to the island’s creditors of nearly \$800 million per year — an 80 percent cut in the total debt service payments due annually — as the fiscal plan previously certified by the oversight board, details.

A range of \$3.0 billion to \$3.8 billion is due cumulatively every year over the next decade on the 11 issues included in the fiscal plan.

Holders of Puerto Rico’s general obligation bonds, one of the highest tier securities that is backed by the island’s constitution, are due the most over the decade — with about \$10 billion coming due in the time period.

The announcement comes just a day after the island was hit with multiple creditor lawsuits after a stay on litigation expired. Title III will put that automatic stay back in place, protecting the U.S. territory from further lawsuits.

Moody’s Investors Service analyst Ted Hampton believes that overall the decision to invoke Title III is a positive step for bondholders.

Although he notes that “a court proceeding will take considerable time and likely involve losses for all Puerto Rico bondholders, it will be an orderly process that should be better for creditors in the aggregate than a chaotic and uncertain period involving proliferating lawsuits among holders of the commonwealth’s numerous debt types.”

Rossello closed his note to the oversight board with his hope that Title III will “accelerate the negotiation process, leading to as much creditor consensus where possible.”

## **CNBC**

By Dawn Giel

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