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Fitch: Puerto Rico's Ratings Unchanged by Title III Bankruptcy Filing.

Fitch Ratings-New York-05 May 2017: The Commonwealth of Puerto Rico's ratings are unchanged following the filing on May 3, 2017 by the Puerto Rico Oversight Board of a petition under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), according to Fitch Ratings.

The sales tax bonds of the Puerto Rico Sales Tax Financing Corporation (COFINA) and the pension funding bonds of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS) are currently rated 'C' by Fitch and are on Rating Watch Negative. The 'C' rating indicates Fitch's belief that default of some kind on the COFINA and ERS bonds appears inevitable due to the Commonwealth's previously stated intent to restructure its debt.

Although sales tax revenues pledged to COFINA continue to be set-aside per the flow of funds and debt service has been paid, there is significant uncertainty as to the eventual impact of a broader restructuring of the commonwealth's debt on COFINA bondholder protections.

The ERS has begun to draw on the debt service reserve to make debt service payments. A default on the pension bonds is expected once the debt service reserve is depleted, which is expected as early as this month (May 2017). Under the Commonwealth's debt moratorium, enacted in April 2016, the Commonwealth has suspended transfers of employer contributions to the ERS in an amount equal to the debt service payable by the ERS and suspended the obligation of the ERS to transfer pledged funds to the trustee under the bond resolution.

Fitch rates securities on which the Commonwealth has already failed to make full and timely payment 'D'. These securities include the general obligation (GO) bonds and government facilities revenue and revenue refunding bonds, issued by the PR Building Authority and guaranteed by the Commonwealth.

The Commonwealth's Issuer Default Rating (IDR) remains 'RD', indicating that the issuer has defaulted on a select class of its debt.

Other ratings of Commonwealth entities include:

Puerto Rico Electric Power Authority (PREPA): The current rating of 'C' and the Rating Watch Negative continue to reflect Fitch's view that a payment default or restructuring of PREPA's debt obligations is inevitable. A common component of the PREPA restructuring plans being considered is the reduction of existing debt by means of a proposed distressed debt exchange.

Puerto Rico Aqueduct and Sewer Authority (PRASA): PRASA's rating of 'C' and Negative Watch reflects Fitch's view that a payment default or restructuring appears inevitable. PRASA's fiscal plan recently approved by the Oversight Board projects annual shortfalls over the next 10 years absent significant cuts in debt service costs or sizeable rate increases that may be untenable. To date, PRASA has made all payments related to its rated bonds, although PRASA entered into forbearance agreements related to its state revolving fund and rural development obligations in June 2016 and currently owes more than $70 million to contractors.

Housing Finance Authority (HFA): Fitch currently rates two of the Authority's outstanding bond issues; both ratings are on Rating Watch Negative:

–Puerto Rico Housing Finance Authority capital fund modernization program subordinate bonds (Puerto Rico Housing Projects), series 2008 (Non-AMT) 'A'. The capital fund bonds are secured by payments from Puerto Rico Public Housing Administration's public housing HUD capital fund annual appropriations;
–Puerto Rico Housing Finance Authority mortgage-backed certificates, 2006 series A 'AAA'. The certificates are limited obligations of the issuer secured by the revenues and assets of a trust indenture portfolio of GNMA and FNMA MBS.

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