

Bond Case Briefs

Municipal Finance Law Since 1971

U.S. Judge Freezes a Puerto Rico Debt Payment Subject to Competing Claims.

NEW YORK — A federal judge on Tuesday ordered the trustee for Puerto Rico’s COFINA bonds not to make a \$16 million payment due on June 1, allowing creditors to litigate competing claims to the money that could be central to how the bankrupt U.S. territory restructures debt.

Judge Laura Taylor Swain made the ruling during a hearing in her Manhattan courtroom, putting a freeze on the payments while stakeholders hash out central disputes over who is to be paid first and from which revenue sources.

Puerto Rico, with \$70 billion in bond debt and another \$49 billion in pension liabilities, is embarking on the biggest financial restructuring in U.S. municipal history. Sorting out obligations of the COFINA sales tax authority, which owes some \$17 billion, is arguably the biggest task in the restructuring.

Swain’s ruling granted a request by the COFINA trustee, Bank of New York Mellon, for “interpleader,” a move authorizing the bank to hold onto the interest payment due on Thursday without fear of liability, while claims over the money are resolved.

Judge Swain did not rule on the underlying claims, a process that could take months, but said “their existence makes it clear that interpleader is warranted.”

Senior creditors of COFINA argue the authority has already defaulted, through the Puerto Rican government’s indications that it plans to cut debt repayments. They say junior COFINA creditors should therefore stop being paid, to ensure payment for seniors.

Meanwhile, holders of Puerto Rico’s \$18 billion in general obligation (GO) debt argue that COFINA’s assets belong to them, under a constitutional guarantee giving them first claim on all the island’s resources.

By freezing Thursday’s payment, Judge Swain is giving sides the green light to litigate at least parts of these issues, though the primary dispute is the one between senior and junior COFINA creditors. Judge Swain stressed she was not ruling immediately on whether GO holders would be allowed to intervene.

Separately on Tuesday, Puerto Rico’s government said it would make a \$13.9 million payment on June 1 to bondholders of the Employees Retirement System, the island’s largest pension, settling a lawsuit filed last week.

By REUTERS

MAY 30, 2017, 3:36 P.M. E.D.T.

(Reporting by Nick Brown; Editing by Meredith Mazzilli)

