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Trump Wants Puerto Rico Debt Handled in Court, White House Says.

- **Resolution should follow existing process, Sanders says**
- **Trump had said in interview island's debt should be wiped out**

President Donald Trump wants Puerto Rico's \$74 billion debt to be addressed through the bankruptcy process established under a law passed last year, White House press secretary Sarah Huckabee Sanders said, not eliminated, as he suggested in a television interview.

"There's a process for how to deal with Puerto Rico's debt. It will have to go through that process to have a lasting recovery and growth. This is a process that was put in place and set up under Obama," Sanders told reporters at the White House on Thursday. "The president wants it to go through that process, and that's the stage we're at on that."

Her remarks were another attempt by administration officials to clarify Trump's intentions regarding the territory's debt after he rattled the \$3.8 trillion municipal bond market on Tuesday with an interview suggesting he wanted the debt eliminated.

"We have to look at their whole debt structure," Trump said in a Fox News interview. "They owe a lot of money to your friends on Wall Street. We're going to have to wipe that out. That's going to have to be — you know, you can say goodbye to that. I don't know if it's Goldman Sachs but whoever it is, you can wave goodbye to that."

White House officials quickly sought to walk back the statement. Trump's budget director, Mick Mulvaney, said Wednesday morning — as Puerto Rico's bond prices sunk to a record low — not to take Trump literally.

"I think what you heard the president say is that Puerto Rico is going to have to figure out a way to solve its debt problem," Mulvaney said.

The price of Puerto Rico bonds rallied after Mulvaney's comments and were little-changed on Thursday, steadying after the rout triggered by Trump's remarks. Its general-obligation bonds due in 2035, one of the most actively traded securities, changed hands for about 38 cents on the dollar, roughly where the price closed on Wednesday.

Trump's remarks on the debt stirred calls from Democratic lawmakers for new steps to ease the commonwealth's financial situation in the wake of the devastation caused by Hurricane Maria. In addition to its existing debt load, Puerto Rico is facing a massive rebuilding effort that the its federal oversight board says could cost \$95 billion.

Senator Chuck Schumer, the Democratic leader in the chamber, said Wednesday that Puerto Rico needs "a far fairer solution" to its debt burden. Schumer's House counterpart, Representative Nancy Pelosi of California, joined calls for the Treasury Department to extend a loan to help Puerto Rico in the short term, as the administration and Congress seek to aid the U.S. territory in rebuilding.

Trump's statement may have been a needed jolt for Puerto Rico's bond market, said Matt Fabian, a partner with Municipal Market Analytics.

"Prices should have gone lower after the hurricane than they did, so the president's statement, however ill-tempered, maybe did help," Fabian said. "Maybe this is helping the market wake up to the fact that prospects are diminished post-storm."

The island began a bankruptcy-like proceeding in May to restructure its debt, the largest such process in this history of the U.S. municipal bond market. The island's debt service payments have been on hold while it restructures its obligations in court.

Even before the storm, Puerto Rico said it could only pay a fraction of what it owed its creditors. The island's fiscal plan, approved by the federally appointed oversight board with broad control over the commonwealth's finances, allocated an average of about \$800 million annually to bondholders over the next decade of the more than \$3 billion it owed each year.

Hurricane Maria's devastation of the island casts doubt that it will be able to afford the payments in the near term given government funds will likely be spent on the recovery. Tax collection has also been disrupted, local officials say.

Hedge funds aren't the only holders of the island's debt: billions of dollars worth of Puerto Rico's bonds are held by local residents, many of whom are retirees. Bonistas Del Patio, or backyard bondholders, a group that represents the interests of local investors, said in a statement that forgiving the commonwealth's debt would not only wipe out these residents' portfolios, but may also impede the island's economic growth as it recovers from the storms.

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