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Puerto Rico Oversight Board May Seek Money Back From Bondholders.

SAN JUAN, April 3 (Reuters) – Puerto Rico’s federally created oversight board believes it can recover payments to bondholders possibly in the billions of dollars if certain debt sold by the bankrupt U.S. commonwealth is found to be invalid, according to a motion filed late on Tuesday in federal court.

Critics on Wednesday called the board’s targeting of bondholder payments another attempt to pressure creditors to settle.

The board, which filed bankruptcy for the island in May 2017 to restructure about \$120 billion of debt and pension obligations, had sought approval in January to void more than \$6 billion of defaulted general obligation bonds sold in 2012 and 2014 on the basis they were issued in violation of debt limits in Puerto Rico’s constitution.

Other creditor groups in the bankruptcy are also trying to invalidate pension bonds and debt sold by the island’s Public Buildings Authority.

U.S. Judge Laura Taylor Swain, who is overseeing the bankruptcy, has yet to rule on those requests.

The board’s latest filing asks the court to extend a statute of limitations, which expires next month, until there is a ruling on the bonds’ validity and because more time is needed to prepare “potentially hundreds” of lawsuits seeking principal and interest repayments. Swain will address the extension at an April 24 hearing.

James Spiotto, a municipal bankruptcy expert and managing director of Chapman Strategic Advisors, said the board is trying to step up pressure on creditors.

Because Puerto Rico bonds were widely held by municipal bond funds and other investors due to their attractive exemption from all local, state and federal income taxes, it would be “a nightmare figuring out who got paid what when, and how you get the money back,” he said, adding that doing so would be a costly endeavor.

Dan Solender, a portfolio manager at Lord Abbett, said the board was likely seeking a more advantageous debt restructuring rather than “a long and expensive fight” with bondholders.

“If they really believe this issuance is not legal the responsible parties would be the lawyers and underwriters and not the bondholders,” he said. On Monday, several Democratic members of Congress sent a letter to oversight board Chairman Jose Carrion urging legal action to recoup fees paid to underwriters and advisers involved in selling the GO bonds.

A board spokesman said all potential claims are being reviewed.

by Luis Valentin Ortiz

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