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Puerto Rico Reaches Deal to Settle $35 Billion in Debt.

The agreement with general-obligation bondholders gives them more cash up front and more attractive debt, while costing the territory $1 billion less than previously expected.

Puerto Rico has reached a deal with creditors who hold $35 billion in its general obligation bonds, passing an important milestone as it tries to resolve its $129 billion debt crisis.

The agreement, contained in a regulatory filing made Sunday evening by the territory's federal oversight board, revises parts of the debt-adjustment plan it announced last year and makes peace with some of its most litigious creditors, potentially opening a shorter path out of bankruptcy.

Under the restructuring plan released in September, the board suggested paying the general obligation bondholders $11.8 billion, including $2 billion up front. Under the new agreement, the debt would be settled for $10.7 billion, with $3.8 billion up front.

José Carrión, the chairman of the oversight board, called the deal "a win for Puerto Rico" that would also shorten the maturities of its new debts by a decade. The new terms, Mr. Carrión said, won "significantly more support from bondholders" than Puerto Rico had until now.

The deal still requires the approval of Puerto Rico's Legislature, but it would provide for holders of the island's general-obligation bonds to exchange them for a combination of cash and new debt. The new debt would be an even split of general-obligation bonds and new bonds backed by Puerto Rico's sales tax — a more attractive option than the old proposal, which included only general obligation bonds.

The new bonds would be for a shorter duration than those they would replace: 20 years instead of 30. That should help prevent the kind of budget deficits that led the island to borrow too much in the past, said Natalie Jaresko, the executive director of the federal oversight board.

"We are doing a great deal in these agreements to protect the people of Puerto Rico," she said.

Although the agreement removes another of the roadblocks facing the island as it tries to claw its way out of debt, a number of hurdles remain.

The agreement does not include bonds issued by Puerto Rico's power authority or the other bodies that provide drinking water and public works on the island. Nor does it apply to the roughly $50 billion in pensions that the island owes its retired government workers — the territory's biggest debt.

Puerto Rico's governor, Wanda Vázquez, supported the debt restructuring plan last year, but she recently said the retirees should get sweeteners, too.

The territory was able to improve the deal for bondholders because of a recent economic windfall. Though the island's economy remains fragile — it was battered by a major hurricane that caused a monthslong power failure in 2017 and recently by a series of earthquakes — the government has built up a large supply of cash.

That’s mainly because it has been sitting on the money it would have been paying to bondholders had it not defaulted in 2016. But the island has also benefited from a flurry of post-disaster rebuilding, which has led to more business-income tax revenue than expected.

The oversight board, which was set up in 2016, has also engaged in strong-arm negotiations, including challenging the supremacy of general-obligation creditors, who are accustomed to being paid first.

It also said general-obligation bonds brought to market starting in 2012 had exceeded the territory’s debt limit and would have to be voided. That would have meant the investors holding them — mostly hedge funds and other financial institutions — would have to pay back any interest or principal they had received.

While angry bondholders threatened lawsuits, the board used that threat as leverage. It offered holders of pre-2012 bonds 64 cents on the dollar, and those holding later vintages either 45 cents or 35 cents on the dollar.

Holders of the later bonds were free to pursue their lawsuits, and the oversight board would set up a litigation trust to pay them up to 64 cents on the dollar if they won. But if they lost — if the court confirmed that their bonds were invalid — those bondholders would get nothing.

Those bondholders said the board’s offer amounted to illegal discrimination and vowed to sue. Among them were Aurelius Capital Management, which has pursued aggressive litigation strategies in other debt meltdowns, most famously in Argentina, where the lawsuits took years to resolve.

Those suits were put on hold after the judge presiding over Puerto Rico’s bankruptcy, Laura Taylor Swain, ordered both sides into mediation.

The agreement grew out of those talks, and it will give all three groups of general-obligation bondholders better recovery rates. Those who were initially promised 64 cents on the dollar would get 74.9 cents, those offered 45 cents would get 69.9 cents, and those offered 35 cents would get 65.4 cents.

The deal must still be incorporated into the overall debt-adjustment plan that requires Judge Swain’s approval. She has scheduled hearings on the plan for October.

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By Mary Williams Walsh

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