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Puerto Rico Strikes Debt Deal With Aurelius and Autonomy.

Aurelius Capital Management, Autonomy Capital and other investors who own $8 billion of Puerto Rico bonds struck a tentative pact with the island to reduce the nearly $18 billion of debt it owes, a major step in the commonwealth's record bankruptcy.

The potential deal with the commonwealth's financial oversight board brings together rival bondholder groups that had been divided in the past year over whether debt Puerto Rico sold in 2012 and 2014 is invalid. Aurelius and Autonomy, which hold securities sold in those years, joined the tentative agreement, which other bondholders signed in June, according to a securities filing.

While more creditors joined the agreement, Governor Wanda Vazquez said she can't support the deal in its current form because it doesn't ease proposed pension cuts to some retirees and public workers. A debt restructuring requires approval from island lawmakers.

Another group of investors, which includes BlackRock Financial Management Inc., and Brigade Capital Management, have also signed on to the pact, according to the filing. The potential deal would cut Puerto Rico general obligations and debt guaranteed by the commonwealth to $10.7 billion from $17.8 billion, about a 40% reduction. The overall plan slashes debt and non-bond claims to $11 billion from $35 billion, a $24 billion reduction.

"The new and more favorable agreement is a win for Puerto Rico," José Carrión, chairman of the island's financial oversight board, which manages the commonwealth's bankruptcy, said in a statement. "It lowers total debt payments relative to the agreement we reached last year, pays off Commonwealth debt sooner, and has significantly more support from bondholders, further facilitating Puerto Rico's exit from the bankruptcy that has stretched over three years."

As part of the plan, the board agreed to end its legal challenge to cancel $6 billion of debt sold in 2012 and 2014. In return, bondholders agreed to take 65.4 cents on the dollar for the 2014 debt — up from the board's earlier offer of 35 cents — and 69.9 cents for 2012 bonds, up from 45 cents. Investors would receive new bonds as well as a split of a $3.8 billion cash settlement, according to a new plan support agreement posted Sunday on the board's website.

Major Portion

The newly restructured bonds will include a blend of general obligations and sales-tax bonds with a junior lien. The debt will be repaid over 20 years rather than the 30-year schedule in an earlier plan. Puerto Rico would then pay a maximum $1.5 billion in annual debt service on the new securities and the island's $12 billion of outstanding sales-tax debt, down from $4.2 billion the island paid in 2017.

Puerto Rico owes nearly $18 billion of general obligations and commonwealth-backed bonds. It's the last major portion of debt that needs to be resolved in order for the island to exit from bankruptcy, the largest ever in the $3.8 trillion municipal-bond market. Puerto Rico must also fix a broke pension system that's promised $50 billion to current and future retirees.

It’s those public workers that Governor Vazquez says she is trying to protect. If terms for bondholders improve, such as giving new sales-tax debt in exchange for general obligations, than retirees must receive better terms as well, Vazquez said in a statement Sunday.

“After carefully analyzing the terms of this new agreement and given that the fiscal oversight board refused to improve the treatment of pensioners in it, my government has determined to not join this new agreement,” Vazquez said in the statement.

The commonwealth’s financial oversight board in May 2017 sought bankruptcy for the island after more than a decade of economic decline, years of borrowing to pay for operating expenses and population loss. The board in January 2019 asked the bankruptcy court to invalidate 2012 and 2014 bonds, claiming the sales breached debt limits imposed in the island’s constitution.

Prices on some Puerto Rico securities soared amid speculation that additional bondholders, including Aurelius, were about to sign on to the debt deal. General obligation bonds with an 8% coupon and maturing in 2035 traded Friday at 74 cents on the dollar, up from 69.6 cents on Tuesday, according to data complied by Bloomberg.

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