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Puerto Rico Bondholders Cheer Deal Paving Way to End Bankruptcy.

- **Restructuring plan would slash outstanding debt by 61%**
- **Puerto Rico bonds jump in price on details of debt plan**

Puerto Rico's nearly four-year bankruptcy took a step forward as it reached a tentative deal with creditors to reduce the $18.8 billion of debt backed by the central government, giving hope the island could exit its insolvency in 2021 after natural disasters, political turmoil and the coronavirus stalled the process.

While the pact would lower Puerto Rico's debt to $7.4 billion and brings together competing bondholder groups and bond insurers holding more than 60% of its debt, it will need court approval. Governor Pedro Pierluisi doesn't support the plan as he and the island's legislature oppose any cuts to public employee pensions, which a federally-appointed oversight board is seeking.

Still, the agreement moves forward the largest municipal bankruptcy in history and drove up the price of the island's bonds. The oversight board aims to receive court approval of the plan in the fall and conclude Puerto Rico's bankruptcy by the end of 2021. That would help enable the commonwealth to grow its economy and increase jobs on the island.

"There was a lot of concern about if they could get a deal with so much uncertainty and the economic outlook, so it definitely gives much more optimism," Daniel Solender, head of municipal securities at Lord Abbett & Co., said about the debt deal. "No one is going to be happy here, but there has to be a compromise to get this done after so many years."

The deal gives bondholders a $7 billion cash payment and $7.4 billion of new general-obligation bonds through a debt exchange. Investors would also receive a so-called contingent-value instrument that would pay off if sales taxes surpass projections.

The oversight board plans to file a debt restructuring plan to the court by March 8. That will include the board's proposal to cut pensions by as much as 8.5%, with those receiving less than $1,500 a month exempt from such reductions. The changes would help fix a broke pension system that must pay retirees solely from the commonwealth's operating budget as the system is unfunded and owes an estimated $55 billion to future and current retirees.

Still, Pierluisi and other lawmakers object to any benefit reductions. Their support will be needed as the debt plan advances because the island's legislature would need to approve the sale of the new general-obligation bonds to restructure the existing debt.

"This is part bondholder negotiation and part politics, you have to mesh both of them into the final plan," said Dora Lee, director of research at Belle Haven Investments.

Even with the risk of the court rejecting the debt deal or island lawmakers holding up a plan, prices on Puerto Rico securities jumped after the oversight board released details of the accord Tuesday.

General obligations with an 8% coupon traded Tuesday at an average 77.5 cents on the dollar, up from 74.7 cents on Monday, according to data compiled by Bloomberg. That's higher than the 67.7 cents on the dollar that bondholders would receive for that security in the debt plan.

Since the bondholder payouts include different components of cash, new bonds and potential future sales-tax revenue, investors may be calculating each part of the compensation package differently, which may be boosting prices, Solender said.

They're also looking at how Puerto Rico's restructured sales-tax bonds, called Cofinas, have jumped in price since the commonwealth issued the debt in February 2019 as part of its bankruptcy. A sales-tax bond maturing in 2058 traded at 110.7 cents on the dollar Tuesday, up from 97.4 cents when the securities were first issued in February 2019, Bloomberg data show.

"It's hard not to factor in that experience of Cofina to the outlook for these bonds too," Solender said about the prospect for Puerto Rico's restructured general obligations. "So it's definitely part of the equation in terms of determining what the existing bonds are worth."

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