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U.S. to Back Puerto Rico Law, Slowing Plan to Restructure Debt.

- **Federal intervention may delay island's exit from bankruptcy**
- **DOJ has until Feb. 7 to submit its brief on the case**

The U.S. Department of Justice said on Friday that it will intervene in Puerto Rico's four-year bankruptcy case to defend a federal law that gave the island the ability to cut its obligations through the courts.

The move, intended to stave off challenges that the bankruptcy is unconstitutional, may actually prolong the commonwealth's efforts to restructure its \$33 billion of debt and exit court oversight. The bankruptcy is the largest ever in the \$4 trillion municipal-bond market.

While a majority of Puerto Rico's creditors have endorsed the restructuring plan, an individual bondholder and two real estate companies allege that Promesa, as the federal bankruptcy law is known, violates the U.S. Constitution.

Their legal action is likely to amount to a technical hurdle that will merely delay the bankruptcy's resolution, unless U.S. District Court Judge Laura Taylor Swain agrees with the holdouts. That would upend Puerto Rico's bankruptcy, which has already been delayed by hurricanes, earthquakes and the coronavirus pandemic.

Puerto Rico's debt plan is the result of years of negotiations between various and sometimes conflicting bondholder classes, insurance companies and labor groups. Those creditors have agreed to the debt plan and haven't questioned Promesa's legality. Congress passed Promesa in 2016 to help resolve the island's financial crisis.

Defending Promesa

"The U.S. respectfully notifies the court and the parties that the U.S. will participate in the above-captioned proceeding for the purpose of defending the constitutionality of Promesa as it applies to the proposed approval of the plan of adjustment," Brian Boynton, acting assistant attorney general, wrote in the notice of participation filed to the court Friday.

DOJ's decision to intervene is expected to delay Swain's ruling on a restructuring plan that would include cutting \$22 billion of bonds down to \$7.4 billion. Confirmation hearings on that debt plan ended Nov. 23. Swain that month gave the federal government a Feb. 7 deadline to file a brief, if the DOJ chose to defend Promesa.

Puerto Rico has been in bankruptcy since May 2017 after years of borrowing to paper over budget deficits, economic decline and population loss.

Bondholders who support the plan may have the right to pull out of their deal if the reorganization plan is not consummated by Jan. 31, according to court records. This means bondholders will have to

decide whether to terminate their agreement and possibly demand a termination fee.

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By Michelle Kaske and Steven Church

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