

Puerto Rico's Debt Crisis Takes a New Turn

Puerto Rico will skip payments on some of its debt due Jan. 4, the island's second default this year, but will remain current on its most important debt, Governor Alejandro Garcia Padilla said on Wednesday.

The Caribbean island will pay the roughly \$330 million due in general obligation debt, which would have been seen as a more serious move because those bonds have the strongest legal protections of any of the island's obligations. However, it also keeps alive the drama surrounding its deteriorating finances as investors wait for the next shoe to drop.

When asked about the shutdown of key government services, Garcia Padilla told reporters at a press conference: "We have to do all we can to avoid that situation."

The island will default on a \$35.9 million payment due to its Infrastructure Finance Authority (PRIFA). It will also default on \$1.4 million due to its Public Finance Corp, but will make payments to most other authorities. The island was facing a bill of about \$1 billion had it made all payments.

The U.S. Commonwealth, suffering from a near decade-long recession with a 45 percent poverty rate and a shrinking tax base due to people leaving the island, first defaulted in August when it failed to make the full payment on its Public Finance Corp (PFC) bonds.

This announcement now opens the door to litigation from holders of defaulted bonds. Garcia Padilla, at the press conference, says while some funds say he is in non-payment, he argued that the island's constitution allows for this action to "protect Puerto Ricans." He once again railed against "vultures" seeking to profit from the island's debt woes, and

accused them of influencing the U.S. Congress not to act to help Puerto Rico.

Garcia Padilla is expected to address the island's debt crisis at a press conference shortly. He has said the \$70 billion in debt outstanding is not payable and requires restructuring. Puerto Rico has been negotiating with creditors to try and persuade them to take a reduction.

Puerto Rico's general obligation debt carrying an 8 percent coupon and maturing in 2035 last traded on Tuesday with an average price of cents on the dollar.

Island officials have given clear warnings of defaults. Melba Acosta, president of the island's Government Development Bank (GDB) was quoted in local media saying the island was expected to default on a Jan. 1 payment on its PRIFA bonds.

A creditor-side source told Reuters on Tuesday that some creditors were preparing possible lawsuits in the event of default, but it was unclear how quickly they could be filed.

Maintaining the GO payment avoids the messy possibility of defaulting on debt backed by constitutional guarantees and considered the class with the strongest legal protection for investors. Its next test on GO debt is not until July, when it faces a about \$1.9 billion payment.

Garcia Padilla on Dec. 1 granted the U.S. territory power to take revenues from public agencies such as the highways agency HTA, PRIFA and its convention center authority in order to pay GO debt and maintain essential services.

(Editing by W Simon and Diane Craft)

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